SHIPBUILDING, REPAIR, AND FINANCING—PART 2

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON MERCHANT MARINE AND FISHERIES HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

H.R. 4662

A BILL TO REVITALIZE THE MARITIME INDUSTRY IN THE UNITED STATES, AND FOR OTHER PURPOSES

H.R. 4704

A BILL AUTHORIZING THE NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION TO MODERNIZE AND EXPAND ITS FLEET OF OCEAN RESEARCH VESSELS, AND FOR OTHER PURPOSES

JUNE 14, 1988

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SHIPBUILDING, REPAIR, AND FINANCING—PART 2

TUESDAY, JUNE 14, 1988

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:10 a.m., in room 1334, Longworth House Office Building, Hon. Walter B. Jones (Chairman of the Subcommittee) presiding.

Present: Representatives Jones, Anderson, Hubbard, Bennett, Pickett, Brennan, Hochbrueckner, Lent, Shumway, Fields, Bateman, Saxton, Miller, and Bentley.

Staff present: Subcommittee on Merchant Marine: Cynthia M. Wilkinson, Chief Counsel; Melanie M. Barber, Counsel; Ann M. Mueller, Clerk; Kip Robinson, Minority Counsel. Committee on Merchant Marine: Ed Welch, Chief Counsel; Gerry Seifert, General Counsel for Maritime Affairs; John Cullather, Staff Assistant; Joan Bondareff, Counsel; George Pence, Minority Staff Director; Rusty Johnston, Minority Counsel; and Gwen Lockhart, Chief Minority Clerk.

STATEMENT OF HON. WALTER B. JONES, A U.S. REPRESENTATIVE FROM NORTH CAROLINA, AND CHAIRMAN, SUBCOMMITTEE ON MERCHANT MARINE

Mr. JONES. The Committee will come to order, please.

We are meeting to consider the state of commercial shipbuilding in our Country. The President's Commission on Merchant Marine and Defense, the Bennett Commission, makes it clear that shipbuilding is in a crisis. While we have two bills before us, this hearing has a broader scope. I hope the testimony will provide a record upon which we can create a long-range solution to the problems of the shipbuilding industry. Not only is that industry fast losing ground, but it is essential to the present and future security of this Country.

And a bill to encourage employment of our Nation's shipyards, H.R. 4704 is straightforward. It sets out a phased program for modernizing the National Oceanic and Atmospheric Administration (NOAA) fleet, a fleet that is currently reaching obsolescence.

H.R. 4662 is not quite as straightforward. This bill, introduced at the request of the Shipbuilders Council of America, is legislation based upon recommendations of the Bennett Commission. It is necessarily complicated by the fact that, in addition to calling for a

new program to build ships in the U.S., it contains provisions affecting the way in which all ships flying the U.S. flag would operate.

The situation today results in large part from the marriage between shipbuilding and ship operation which was forged in the unity days of the Depression, with war clouds on the horizon. Now, as then, the United States needs both a substantial U.S.-flag merchant fleet and a shipbuilding mobilization base. The question is, can we reach these two goals? There are substantial obstacles, including the budget crunch, the adversarial posture that has developed between two industry sectors, and the incomplete divorce that resulted from the Administration-forced zero-budgeting of construction-differential subsidy (CDS).

We know, and I'm sure we'll all hear more about, the direct and indirect subsidies of other shipbuilding nations. We have also heard about technical noncompetitiveness and the emphasis our more successful shipyards place on Navy work. I would hope we can emerge from these discussions with an understanding that the shipbuilding base requirement is one that is in the public interest. We must develop a solution that is particularly responsive to the public's need and not one which is based upon some statistical comparison with other successful shipbuilding nations.

The time has passed for "thining and mining". Let's face the shipbuilding problem in the United States squarely, conclude that we need one, and agree that the only thing you get out of putting one troubled industry on the shoulders of the other is a broken back for the one on the bottom and an unstable base for the one on top.

That concludes my remarks.

Mr. Shumway.

STATEMENT OF HON. NORMAN D. SHUMWAY, A U.S. REPRESENTATIVE FROM CALIFORNIA

Mr. SHUMWAY. Thank you, Mr. Chairman. I'm delighted to be here this moring, and I commend you for holding this hearing.

I think this is a very vital subject, and one which this Committee needs to examine in great detail and, hopefully, come up with an answer.

We have had presented to us a great deal of information in terms of reports and analyses of the existing situation, and I think all of us are now very mindful of the fact that something needs to be done. We can't just go on drifting. We need to take action to preserve our shipbuiding industry.

And so for that reason, Mr. Chairman, I am delighted that you have convened this hearing. I'm not sure that the bills we're going to be considering today are the absolute answer but, nevertheless, they open up the subject for discussion. And I think that's vital for this Subcommittee to do.

Mr. Chairman, I would ask unanimous consent that the opening statements of Congressman Bob Davis and Congressman Norman Lent be included in the record at this point.

Mr. JONES. Without objection, so ordered.

[The statements of Mr. Davis and Mr. Lent follow:]

STATEMENT OF HON. NORMAN F. LENT, A U.S. REPRESENTATIVE FROM NEW YORK AND RANKING MINORITY MEMBER, SUBCOMMITTEE ON MERCHANT MARINE

Mr. Chairman, this is an important hearing on a very significant issue. The plight of the American shipbuilding industry is well known by everyone involved in the maritime industry. However, I believe the average citizen of our country would be astounded to learn that there are currently no commercial ships under construction in any American shipyard. Most of our citizens just assume that the shipbuilding industry will continue to exist, providing the Navy with the ships they need and the merchant marine with ships needed for our commercial trade.

Solving the problem of how to help our American shipyards is more difficult than defining the problem. The bills before the Committee this morning are different initiatives to provide work for our American shipbuilding industry.

H.R. 4662, introduced on behalf of the Shipbuilders Council of America, would implement the procure-and-charter concept described in the December 1987 Report of the Commission on Merchant Marine and Defense. I support this concept, but we need to look at it carefully from the standpoint of the utility of the vessels that would be built under such a program and, secondly, the ultimate cost to the Government of this type of program. I am also concerned about the provision of the bill which would require that only U.S.-built vessels would be allowed to carry U.S. Government-impelled cargo.

H.R. 4704 is designed to rehabilitate and expand the fleet of vessels operated by the National Oceanic and Atmospheric Administration (NOAA). There is no doubt that the current NOAA fleet of 23 vessels needs to be modernized. This bill would do that through a ten-year modernization and expansion program.

Mr. Chairman, both of these bills are important not only for the American shipbuilding industry but for the long-term health and welfare of our maritime industry and Federal oceanographic activities. We all know that shipbuilding programs such as these are going to cost money. Funding has been the major stumbling block for most of the legislation this Subcommittee has been concerned with for the last several years.

The Merchant Marine and Defense Commission estimates that the procure-and-charter program it recommended would cost around $1.0 billion per year, over a ten-year period. H.R. 4704 would authorize $613 million over a ten-year period. Somehow, this Committee, and ultimately the Congress, must figure out a way to fund programs of this type. It will not be easy, but I believe we will have to come up with this level of funding in order to maintain an American shipbuilding industry.

Mr. Chairman, I look forward to hearing the witnesses today and hope that they have some insights into how the Federal Government will be able to fund these types of construction programs. Thank you.

STATEMENT OF HON. ROBERT W. DAVIS, A U.S. REPRESENTATIVE FROM MICHIGAN AND RANKING MINORITY MEMBER, COMMITTEE ON MERCHANT MARINE AND FISHERIES

Mr. Chairman, judging from a brief review of the written testimony on H.R. 4662 submitted by our witnesses in advance, we seem to have a "tiger by the tail". Rarely have I seen the witnesses as united behind something—or I should say against something. This is not the type of consensus that I have been advocating for the past four months.

But, in all seriousness, Mr. Chairman, I think you will agree that H.R. 4662 was needed as a vehicle to allow our operators a chance to speak their minds. The shipbuilders deserve to have their proposal put on the table—it is only then that the steps toward consensus can be developed.

None of us are so naive as to think that a bill as controversial as H.R. 4662 can move without changes and concessions, but I urge the operators at this stage of the legislative calendar to propose changes which are realistic and attainable. At the same time, I urge the Administration to at least offer a proposal which will assist the shipyards. I very much appreciate that we are running out of time, but I think we owe it to the shipyards, labor, and the operators to make one last push for compromise.

Mr. JONES. Mr. Hubbard.

Mr. HUBBARD. I have no statement, Mr. Chairman.

Mr. JONES. Mrs. Bentley.

STATEMENT OF HON. HELEN DELICH BENTLEY, A U.S. REPRESENTATIVE FROM MARYLAND

Mrs. BENTLEY. I want to thank you, Mr. Chairman, and you, Mr. Davis, for calling this hearing today to attempt to develop legislation that is absolutely essential if we can ever expect to aid our maritime industries.

If anyone believes that this legislation is not required, then they haven't taken the time to read the report of the President's Commission on Merchant Marine and Defense and its recommendations.

And I want to particularly thank both you, Mr. Chairman, and Mr. Davis, for working so closely with the Shipbuilders Council in drafting the bill before us today.

I support this bill for two reasons. First, I have a shipyard in my district, the Sparrows Point Shipyard of Bethlehem Steel Corporation. For decades, actually centuries, there were always three major facilities in the Port of Baltimore, but two of them, Maryland Shipbuilding and Drydock Company and the Key Highway Yard, also owned by Bethlehem, closed in the early 1980's because of stiff foreign competition, much of which is heavily subsidized, and the lack of domestic work opportunities.

Today, like many of the yards now operating, the Sparrows Point Yard is hanging on by the sheer grace of Navy work, and we all know that the naval shipbuilding and overhaul and maintenance programs are being seriously constricted due to reductions in the budget.

Fewer dollars in the Navy's budget can only mean further closings for the some of the shipbuilding and repair yards now operating. My support for this bill, however, is not strictly parochial.

I also support this bill because the shipbuilding industry is dying nationwide. The problems experienced in Baltimore only mirror the national picture, as so vividly detailed in the President's Commission's report.

In the past five years, 76 shipyards or repair facilities have closed in the United States, reducing drastically the capability of the shipbuilding and repair industry to meet mobilizaiton requirements.

Projections offered by the President's Commission indicate that, with ship construction limited to Navy work and concentrated in ony six or seven yards, the Nation's ability to rapidly construct ships, particularly merchant ships, during time of war or national emergency will be seriously impaired, if not lost.

We in the 100th Congress must not allow the shipbuilding and repair industries to deteriorate to that dangerous level, where we almost are now. We can all remember the herculean efforts of the shipbuilding industry prior to and during World War II, when American workers responded to the call of President Roosevelt and built 6,000 Liberty and Victory ships.

If this Congress, the military, or the public in general believes for one second that that effort now can be repeated, or at any time in the furture, given the elimination of governmental support, then they are mistaken; they are not dealing with reality.

Not only will we not have the basic infrastructure to take on such a massive undertaking, but we will not have the experienced shipyard workers required; 52,000 shipyard workers have been lost to the industry, probably forever, since 1982.

You cannot build ships simply by wishing for them. You need trained technicians. We have already witnessed how the Navy, last year, had to import technicians from the Philippines and Japan to work in the naval yards in Long Beach and Philadelphia because they could not find the craftsmen here in the United States.

Two months ago, the Sparrows Point yard, as I mentioned in my own district, was unable to find outside machinists for Navy repair projects in that yard. The skills are depleted because of the overall lack of work in the shipyards.

We must maintain an adequate shipbuilding mobilization base. Other maritime nations have recognized this absolute requirement, and they have taken extraordinary measures in the form of direct and indirect subsidies to keep their yards operational.

A case in point is West Germany. The Greek government sought bids for the construction of four Superior Class Frigates, and the Todd Shipyards Corporation, which pioneered the design and construction of this type of vessel, aggressively sought this business. They were repeatedly told by the Greek government and the U.S. Government representatives in Greece that the Todd program was most competitive and that their economic offer was the lowest in price.

Despite that fact, the contract was awarded to a West German yard. Why? Not because they submitted a lower price, but because of the direct intervention on the part of the West German government. News reports, which have proven to be accurate, said the frigates were being offered under most advantageous terms, taking into consideration the fact that the German government has ensured a free grant in aid amounting to an estimated 450 million DM, which includes 100 million DM in cash, 75 up-to-date Leopard tanks, valued at 250 million DM, and 28 F-104G jet fighters, with spare parts and base materials worth 100 million DM.

The first frigate will be built in German shipyards, where Greek technicians would be trained so that the other three vessels could be built in Greece, strengthening the viability of Greek shipyards. It was also learned that the Greek government intends to use U.S. Foreign Military Credits to substantially finance the program even though the deal goes to the Germans.

In effect, the U.S. Government is subsidizing the West German shipyards, at the expense of U.S. yards. How can any U.S. shipyard, any U.S. industry, compete against foreign competitors when their government heavily subsidizes their efforts?

And, Mr. Chairman, we're saying this is a result of the attitude of the State Department, and we also know what Chairman Bennett has been trying to do in stopping the sale of the Aegis to Japan, and our State Department is pushing that because the shipbuilding industry in Japan is down, they say. Nobody seems to care about the shipbuilding industry in this Country. There is no question, no doubt whatsoever, that the U.S. shipbuilding industry and the U.S. merchant marine need our help, need our Government's help.

My reputation as a strong supporter of both of these industries is based on a solid foundation that goes back more than thirty years, and I want to assure the industries and this Subcommittee that I will continue to build on that foundation by supporting this bill.

We must convince our Colleagues in the Congress that, without a strong merchant marine and a strong shipbuilding and repair industry, this Nation will be vulnerable to outside forces. That is a fact that cannot be overemphasized.

Thank you, Mr. Chairman.

Mr. JONES. Thank you, Mrs. Bentley.

Are there further statements?

[No response.]

Mr. JONES. At this point, the Chair would like to ask unanimous consent to place the following into the record a statement by the Honorable Mario Biaggi, and a letter from the National Marine Engineers' Beneficial Association.

[No response.]

Mr. JONES. Without objection, so ordered.

[The statement of Mr. Biaggi follows, and the letter from the National Marine Engineers' Beneficial Association can be found at end of hearing.]

STATEMENT OF HON. MARIO BIAGGI, A U.S. REPRESENTATIVE FROM NEW YORK AND VICE CHAIRMAN, COMMITTEE ON MERCHANT MARINE AND FISHERIES

Mr. Chairman. In the late 1960's, many young people asked, "What if they gave a war and no one came?" In the 1980's, American seafarers stand ready as always to defend their nation. Today, the question for maritime observers is, "What if they gave a war and no one could come?" The deteriorating condition of the United States' shipbuilding and ship repair capability raises serious concerns about our military preparedness. Further, as job opportunities for American seamen diminish, the pool of young people entering the merchant marine shrinks. What if they gave a war and no trained seamen came?

While preparing for this hearing, a Subcommittee counsel received an interesting question from the Navy. A naval officer asked if the Subcommittee would wait for the President to respond to the Commission on Merchant Marine and Defense's recommendations before the Subcommittee held a hearing on procure-and-charter and other shipbuilding issues. The Subcommittee has waited in vain for six months for the President to implement his Commission's recommendations. We will certainly not continue to wait while America shipyards close and shipyard workers go into more stable fields.

The lack of commercial shipbuilding hurts our economic health as well as our ability to provide the sealift that would be required in a war or national emergency. On November 9, 1987, the last large commercial oceangoing merchant vessel under construction in the United States was delivered.

On December 8, 1987, the Subcommittee on Merchant Marine held an oversight hearing on the reduction in U.S. shipbuilding and ship repair capability. The hearing affirmed the United States' need for a shipbuilding and ship repair capability that is sufficient to meet our commercial and military requirements during peacetime and in the event of a war or national emergency. Many of the same witnesses that will testify today described the condition of our shipbuilding, ship repair, ship supplier industries, and the merchant marine workforce as bleak. Naval ship construction and repair are virtually all that remain for the industry.

The long-term problem with losing shipyards and facilities is that, once they are converted to more profitable uses such as upscale housing and recreational marinas, the cost of returning the waterfront property to shipbuilding and repair is prohibitive.

In addition to continuing to oversee shipbuilding and ship repair capability, we focus on two bills. H.R. 4662 establishes a procure-and-charter program, and H.R. 4704 authorizes NOAA to modernize and expand its fleet.

Turning to H.R. 4662, the purpose of setting up a procure-and-charter program is to build ships for commercial operation that can be used for military sealift. While

an excess of commercial tonnage exists in the world economy, U.S.-flag commercial vessels that are of the size, capacity, and speed required for military sealift are in short supply.

Independent studies establish the need to strengthen and expand the NOAA fleet so that NOAA can accomplish present and future missions. The age and deteriorated state of vessels currently in the fleet; the lack of modern, scientific equipment; and the need to meet new missions evidence the necessity for the modernization and expansion program. Over ten years, NOAA would modernize 17 vessels, replace four vessels, construct or otherwise procure seven new vessels, reactivate two vessels currently laid up, procure modern equipment, and hire or contract with the workers needed to operate the modernized, expanded fleet. The bill would require all vessels in the plan to be modernized or built in American private shipyards. All major hull and superstructure components would have to be fabricated in the United States. Except for scientific equipment not sold in the United States, at least half of all machinery and components would have to be bought in this country.

A critical element of a procure-and-charter program is ensuring that the United States has a viable shipyard base. By creating new commercial construction, the program would not only add militarily-useful vessels to the U.S. fleet but would also enhance our shipyards' ability to build and repair the ships needed in a war or national emergency.

I implore my Colleagues to join me in supporting both the procure-and-charter and NOAA bills. The need is urgent; the time for action is now.

Mr. JONES. We will recognize our first witness, the Honorable John Gaughan, Administrator of the Maritime Administration.

Mr. Gaughan, we're delighted to have you here, and you may proceed.

STATEMENT OF HON. JOHN A. GAUGHAN, ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF TRANSPORTATION

Mr. GAUGHAN. Thank you very much, Mr. Chairman.

Mr. Chairman, I've been asked to comment on two bills, H.R. 4662, a bill which would authorize a Government procure-and-charter program for vessels built in U.S. shipyards, and H.R. 4704, which would authorize the National Oceanic and Atmospheric Administration (NOAA) to modernize and expand its ocean research fleet over a ten-year period.

If I could make one brief comment on H.R. 4704, there are representatives from the Department of Commerce here to speak to that bill, and I will forego any comment as it relates to H.R. 4704, Mr. Chairman.

Mr. JONES. The gentleman may proceed.

Mr. GAUGHAN. As to H.R. 4662, this bill proposes a new Title XIV of the Merchant Marine Act authorizing the establishment of a procure-and-charter revolving fund in the U.S. Treasury for the following purposes: (1) revolving fund financing for the construction of vessels in private U.S. shipyards; (2) the charter of such vessels to U.S. citizens for documentation under the U.S.-flag for operation in domestic trade, foreign commerce, or international trade; and (3) the transfer of vessels built under this title to the National Defense Reserve Fleet (NDRF).

Standard vessel designs to promote series construction and advanced ship construction techniques would be encouraged, with the goal of reducing construction costs.

Vessels built for the Government's account could be chartered either to private U.S. citizens through sealed bids or to the Secretary of Navy for that service's use, provided that such operation would not adversely affect or compete with commercial operation

of any privately-owned vessel. If the charter is to a private citizen, the charter rate must allow recovery of at least the capital cost of the vessel, less depreciation, excluding the cost of any sealift enhancements or national defense features.

Two noteworthy provisions relate to operating subsidies. A vessel built and chartered under this new title would be eligible to receive operating-differential subsidy (ODS) only if it were operated as a tramp, not in regularly scheduled liner service; and a foreign-built vessel would be eligible for ODS only if its operator or any other operator has placed an order for a comparable vessel with a U.S. shipyard or has chartered from the Secretary of Transportation a vessel built in a U.S. yard under the new title.

Finally, no foreign-built vessel would be eligible to carry preference or military cargoes after October 1, 1992. Eligible U.S.-built vessels more than 20 years old would have to have been substantially rebuilt in the United States within the past five years and certified by the Secretary of Transportation as having a useful life of at least five additional years for preference eligibility.

Mr. Chairman, there is no doubt that the U.S. shipbuilding industry has been in a state of decline. However, the Administration opposes this bill which ties the problems of the shipyards, and the resolution of those problems, to the many immediate and pressing problems in the liner industry.

It is true that at the present time there is literally not one major commercial vessel on order in a U.S. yard. However, the reasons for this state of affairs are diverse. The glut of new ships constructed over the past decade or so and the resulting excess tonnage have affected the shipbuilding industry worldwide. Many yards, including very cost-competitive yards, both in Europe and in Japan, have closed due to a lack of new orders. For some time, U.S. shipyards have not been competitive in price or productivity with foreign yards and are falling further behind in competitiveness. While we have recently seen some signs of increasing efficiency and necessary technological changes, the fact remains that one can get a ship from a foreign yard for one-half to one-quarter of the cost of one built here, and receive delivery of that ship in a much shorter timeframe. We cannot expect our shipping companies, already facing a fiercely competitive enviornment, to absorb a differential associated with acquiring a ship from a U.S. yard.

This brings us to the inevitable question of the appropriate level of Government support for U.S. yards. I do not wish to close any doors on the dialogue which needs to take place to determine the level of shipbuilding activity necessary to assure our strategic shipbuilding base and the level of Federal assistance necessary to meet that requirement. But we have to be realistic. I have not seen any cost projections for the program that this bill would create. However, the Commission on Merchant Marine and Defense has recommended a somewhat similar procure-and-charter program. It calls for building 12 ships per year for 10 years, at a cost of about a billion dollars per year. In an era of substantial budget deficits, it would be irresponsible to support such a level of expenditure without an objective consideration of the level of shipyard activity actually required to meet our strategic needs based on sealift projec-

tions and based on a thorough cost-benefit analysis of any such proposal.

In this connection, I would like to emphasize what, in my view, is essential to the survival of the U.S. merchant marine. The Administration's ODS reform package, at very modest cost, would increase significantly the number of vessels in the U.S.-flag fleet supported by ODS. Key to this objective is the ability to procure ships at world market prices while receiving operating subsidy, and have immediate eligibility to carry military and preference cargoes. H.R. 4662 would render foreign-built vessels ineligible to carry these cargoes after October the 1st, 1992. The result would be a substantial decrease in the number of ships available, a substantial increase in cost for military and preference shipments, as well as a substantially adverse effect on operators that have foreign-built vessels that are now eligible to carry such cargoes. Such a course of action, given the condition of our liner industry, would be a giant step backward.

I appreciate the concerns expressed by the domestic shipbuilding industry. I also appreciate the day-to-day competitive problems faced by the U.S.-flag merchant marine. I am most willing to engage in a dialogue within the Administration and with this Committee, or any other group, on ways to focus on the shipyard problems expressed by the shipbuilding industry. However, I simply cannot support a program that would be detrimental to our operating industry.

I believe that this bill would significantly hurt the U.S.-flag fleet and, more importantly, would not accomplish the goal of a healthy shipbuilding industry. There are no real incentives for cost-cutting and innovation, nor is there any requirement for the cost differential between U.S. and foreign construction costs to be reduced. Further, there is no way to pinpoint the yards which would receive any potential business. If orders were placed through open competition, those yards which are the healthiest and most profitable would likely have a competitive edge.

The bill calls for termination of the proposed revolving fund if it has insufficient funds to support the program. Mr. Chairman, I respectfully submit that the only way the fund would have sufficient monies would be by regular appropriations by the Congress. The operating restrictions imposed by the program would make operation of vessels built and chartered under it uneconomic. There could be no ODS for a liner operator who procures a title XIV ship while operating regularly scheduled service. Due to higher operating and capital costs, such vessels would be relegated to domestic, preference, and military trades, where rates would have to be high enough to cover their much higher construction costs. I doubt that any liner operators would be interested. U.S. operators need to procure vessels at world market prices, as witnessed by the fact that 33 ships were built or are currently under construction as a result of the so-called section 615 window. The last ship built in the U.S. for the international trade was delivered in April of 1986.

On the bulk side, ODS would be available, but the higher capital costs of U.S.-built vessels would make them noncompetitive in commercial trades. Our thrust with the Administration's ODS reform legislation is to make our industry more competitive and, thus, to

ensure the availability of adequate sealift resources to meet emergency military sealift requirements. This bill does not advance that cause.

Mr. Chairman, even if our shipyards need help, I do not see H.R. 4662 as the answer. Any solution to the shipyard problem must take into account budgetary reality, and one sector should not be developed at the expense of other segments of the industry.

That concludes my prepared remarks, Mr. Chairman. I'll be glad to answer any questions you or other Subcommittee Members may have.

Mr. JONES. Thank you, Mr. Administrator.

You say the Administration opposes the procure-and-charter program, H.R. 4662, is that correct?

Mr. GAUGHAN. That is correct, sir.

Mr. JONES. The President's Commission on Merchant Marine and Defense recommended another form of procure-and-charter. Will you describe how that proposal differs from the bill today?

Mr. GAUGHAN. Mr. Chairman, there are a number of significant differences. First of all, the Commission's set of proposals was a comprehensive response to the challenges facing a whole range of strategic needs of the United States. The Commission's report recognized that there was a need for a build-foreign option. While it might be limited in scope, it nonetheless called for allowing that, and also called for those vessels that are presently eligible for cargo preference to continue.

In reviewing this bill, Mr. Chairman, I came up with 107 vessels that would not be available for participation in the preference programs if this bill were enacted. I think that is a major step backward.

Another significant difference between the Commission's recommendation on their procure-and-charter program and this proposal was a recognition that the charter rate would probably have to be at a level that would not allow for full recovery of the capital cost. That is a major difference, Mr. Chairman.

Mr. JONES. Thank you.

You were a member of the President's Commission. You signed its report and recommendations. At that time, did you personally support the President's procure-and-charter recommendations?

Mr. GAUGHAN. Mr. Chairman, I did sign that report. As a member of that Commission, I stand behind that report.

That report lays out in very graphic detail the challenges that face this Country in meeting its defense needs. It acknowledges, throughout, that there are substantial public costs that go with meeting all of those needs. It also looks to the future, and voices a concern that, if the problems are not addressed soon, sooner rather than later, the cost associated with correcting the problems will increase. I don't think anyone can argue with that. And I certainly don't argue with it. I signed the report.

But the linkage that this bill, H.R. 4662, has between the shipbuilding industry and the operating side don't necessarily exist to the same degree in the Commission's report. I think that is an important distinction to make. Build-and-charter was acknowledged by the Commission as a program having substantial costs. We have not conducted, and are not in the process of conducting, the cost

benefits that go with it. But we were attempting to lay out, to the best of our ability in the Commission, a blueprint of our ideas on how best to proceed.

There have been many diverse opinions on how to proceed. And I think it is healthy that we're having this discussion, sir, hopefully to raise this issue to the level of national concern, so that the relative costs and the benefits that come from it can be judged not only by myself, but others. Hopefully, a program that responds to all of the legitimate concerns of different segments of this economy would be addressed in finding a solution.

Mr. JONES. Thank you.

Do you now personally support all the recommendations of the President's Commission, including its form of procure and charter?

Mr. GAUGHAN. Mr. Chairman, let me answer that question this way.

This is much like the Constitution. And the signers of the Constitution may not have agreed with every single line that was in it, but as a package, and as an approach, and as a concept, they did. I would put myself in that position as a member of that Commission. It addresses a whole range of issues. The issues are not taken as individual items, but as a package; and as a package, I support that package, sir.

Mr. JONES. All right, sir.

Do you have any idea when the President and his Administration will officially comment, or react to the recommendations of the Commission?

Mr. GAUGHAN. Mr. Chairman, I have no specific date. I can tell you that, since my last appearance before this Committee, the Deputy Secretary of Transportation has written both to her counterpart at the Department of Defense, Mr. Taft, and to General Powell, urging them to get on with the analysis and so forth. We have not yet had an official response back, sir.

Mr. JONES. Mr. Administrator, you say in your statement, "even if our shipyards may well need help". Is there any question in the Administration that our shipyards need help?

Mr. GAUGHAN. Mr. Chairman, there have been significant amounts of Government support for the shipbuilding industry. Clearly, that support has not been spread across all levels and tiers of the industry. Having said that, however, when we look at the number of yards that meet the definition of fitting into the "mobilization base", whether they be shipbuilding or repair facilities, we find that the number is now, I believe 116, which is up from the 110 yards that it had been a couple of years ago.

Now, these are not necessarily the same yards, and so forth. But I don't think we can have this debate without at least acknowledging the extensive amounts of money that have gone to the shipbuilding industry, whether it be Navy shipbuilding, MARAD's RF (reserve fleet) conversions, Coast Guard construction, and so forth.

Mrs. BENTLEY. Would the Gentleman yield?

Mr. JONES. The Gentlelady is recognized.

Mrs. BENTLEY. You say it's gone up from 110 to 116. I'm really shocked to hear you use the number 116 to start with, of facilities available around the Country to do repair and that.

Let me start with just the six. What are the additional six that we now have?

Mr. GAUGHAN. I don't have the names of the companies here. I can provide them to you, Mrs. Bentley.[1]

Mrs. BENTLEY. Do you know what kind of facilities they are?

Mr. GAUGHAN. I would suspect that they are probably repair facilities rather than major construction facilities, ma'am.

I don't mean to mislead you that there have been six major shipyards that recently have opened because that's not the case. I am simply making the point that, as you try to define this mobilization base, it is not an easily defined entity, but are that number of facilities that we look to as being available. I will provide for the Committee the precise definitions that we use, and the criteria that a shipyard or a repair facility has to meet in order to qualify as part of the base.

Mrs. BENTLEY. I'd really like to see the comparison and the list, because, Mr. Chairman, I really question whether we had 116 in World War II.

Thank you.

Mr. GAUGHAN. I will provide that for the record, Mr. Chairman.

[See insert 1 at end of hearing, "Overview Statement on Private Shipyard Mobilization Base".]

Mr. JONES. One further question, Mr. Gaughan.

What is the President doing to promote commercial shipbuilding, and not Navy shipbuilding? We have two different approaches here.

Mr. GAUGHAN. I'm not sure that I can give you any kind of a litany on what he has done to quote, "promote commercial shipbuilding."

Mr. JONES. Don't feel bad. I don't think anybody else could either. [Laughter.]

Any Members have any questions of the Administrator?

Mr. Shumway.

Mr. SHUMWAY. Thank you, Mr. Chairman.

As I understand it, MARAD supports a modest ODS reform program to aid liner operators. Given the fact that the construction-differential subsidy program is no longer being funded, what do you believe we should do to help shipbuilders? In other words, the liner operators have a program; the shipbuilders do not. Do you see any room for any kind of a Government-sponsored program to aid shipbuilders that might correlate to the ODS program?

Mr. GAUGHAN. Mr. Shumway, I think the competitive differences between U.S. yards and foreign yards make it such that without, in my view, great increases in the productivity and the ability of U.S. yards to hang steel at rates comparable to their foreign competition, I'm not sure that I can construct a program that is going to lead to building vessels in U.S. yards. It is not just a situation where the Government, by providing money, is going to solve the problem. I think the industry needs to be part of the solution, and the shipbuilders are going to appear, and may point out all the ways that they have, in fact, made those strides.

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[1] (Editor's Note: See the October 1987 MARAD Report, "Major U.S. Shipbuilding and Repair Facilities")

Mr. SHUMWAY. Well, could I ask this? Is there any way that you could envision a procure-and-charter program, maybe having a provision that would require that shipyards streamline their costs on an annual basis so that the difference in domestic and foreign costs would actually reduce from year-to-year under the program? Is there any way of crafting such an approach that the Administration could support?

Mr. GAUGHAN. There was an effort in the Merchant Marine Act of 1970 to try to do that, Mr. Shumway, by setting a goal of construction of 300 vessels, and providing that the construction-differential subsidy, over the years, would decrease. That program did not accomplish anywhere near what its goal was.

Looking at it from the standpoint of the Commission on Merchant Marine and Defense, and having identified that there are needs within the sealift capacity of this country, whether it be product tankers, combinations of Ro/Ro-container ships, container-bulk vessels, to fit a sealift need, that also have potential commercial value, and I will provide those to the Committee. If you're going to have a program to assist the industry, it ought to be, in my opinion, tied also to meeting this sealift need. If that is a starting point, the procure-and-charter program set out in the Commission's report, I think, has a greater focus and potential of having a positive result, not only for the shipbuilding industry, but for the Nation as a whole, rather than the bill before us.

Mr. SHUMWAY. I'd be interested in seeing that list. If you will supply that to the Committee, I'd appreciate it.

Mr. GAUGHAN. Sure.

[The information follows:]

SHIP TYPES AND FEATURES

1. RO/RO SHIP

Commercial features:

Diesel Powered
Panamax
2,440 TEU Capable
Stern Slewing Ramp

Military features:

Side Ports
Reinforced Ramp
Reinforced Decks
20 Knots +
Bow Thrusters
Other Standard national defense features for RO/RO's (see TAKR Specifications.)
Small Crane/Cargo Booms [1]

Basic commercial design Barber Blue Lines' *Barbara Hector.*

2. COMBINATION CONTAINER/RO/RO

Commercial features:

Diesel Powered
Panamax
TEU 2,000-2,500
Container Cell Guides (Removable)
Slewing Ramp
Speed 18 Knots

[1] Indicates that feature could be added after mobilization with little or no modifications to the ship.

Military features:

Reinforced Decks
Reinforced Ramp
Side Ports
Bow Thrusters
Small Crane/Cargo Booms [1]

Basic commercial design *Atlantic Companion.* See *Marine Engineering Log,* May 1984.

3. PRODUCT TANKER

Commercial features:

Diesel Powered
Speed 16 Knots +
Coated Tanks, Epoxy
DWT 40,000

Military features:

5 Products +
Underway Replenishment Capable
Double-skin Structure
Other Tank national defense features

Basic commercial design should be based on Hitachi Zosen Corp. *Epoch II*—use of longitudinal girders from deck to hull, building by "Mechatronics." Ref: Society of Naval Architects and Marine Engineers meeting, November 1985.

4. CONTAINER-BULK SHIP

Commercial features:

Diesel Powered
32,000–42,000 DWT
Panamax
Removable Cell Guides
Speed 18 Knots

Military features:

Cargo Booms/Cranes [1]
Twin Decks Installed [1]
Heavy Lift Capable [1]

Basic commercial design *Ogden Missouri* or Norway's *Hank Arrow.*

5. SELF-SUSTAINING CONTAINERSHIP (FEEDER SHIP)

Commercial features:

1,400 TEU
Diesel Powered
Speed 18 Knots
16,000 DWT

Military features:

Convertible 20 foot or 40 foot Cargo Holes
Underway Replenishment Capable [1]
Heavy Lift Capable [1]

Basic commercial design *Sea-Worthy* Class.

Mr. SHUMWAY. Finally, let me just ask in this area, the reason for Government involvement in the first place is to make sure that we have a shipbuilding industry, and we have the sealift capacity that might be necessary during a time of national emergency. There's been a lot of criticism directed toward this Administration because it has appeared that MARAD and the Defense Department have not had a close working relationship toward that end. And it seems to me that one of the best features of a bill such as this one, the procure-and-charter program, is that it does specifically try to

marry these two agencies of the Government, so that we are addressing both the private sector and defense needs.

What have you done to work with DOD on behalf of MARAD during the time that you've been the Administrator, and do you see that particular benefit coming out of this bill? If not, why?

Mr. GAUGHAN. First of all, Mr. Shumway, there has been for a period of time, certainly before my tenure as the Administrator, an ongoing relationship between the Maritime Administration, the Department of Defense—most particularly the Department of the Navy—and the shipbuilding industry through the National Shipbuilding Research Program. I believe that the Research Program is about 15 years in being, varying in degrees over the years. Contributions from all three entities have been combined to address a whole range of improvements in shipyard capability, and that certainly has continued throughout my time.

I would not mistake occasional, and possibly unfortunate, bureaucratic squabbles over program management as affecting a continuing relationship at all levels, not only at my level but at the working level, with the Department of Defense. The conversion of the so-called crane ships, the T-ACS program, is a perfect example of the integration of the Navy Sea Systems Command, the Military Sealift Command, and the Maritime Administration addressing sealift issues and concerns by converting these ships to be capable to offload non-self-sustaining containerships.

There is also the emergence of the new U.S. Transcom, the United States Transportation Command, that was called for in the Packard Commission report, which comes into formal existence, I believe, October the 1st, with General Cassidy as its head. I have personally visited Scott Air Force Base, which is where that headquarters is, and met with those entities, to address MARAD's appropriate role in the whole question of sealift.

So, I think there is an excellent working relationship that may have been masked on occasion by some of the more public controversies that we've had—which, by the way, we have settled to our mutual satisfaction.

Mr. SHUMWAY. Thank you.

Mr. JONES. Mr. Anderson.

Mr. ANDERSON. Thank you, Mr. Chairman.

Mr. Gaughan, from contacts that have been made, many of them to me in my district from shipping and liner sources, and as I understand it a good portion of the Country's liner industry does not support the shipbuilder's ODS reform proposal, and of course, we've just heard your views, and you're not in support.

How much room for compromise is there between these two industries in order to work out an ODS reform proposal that both the liner industry and the shipbuilding industry can live with? It seems to me your program, your leadership, should be one that would be talking to both of them and maybe giving both of them something that would make it worth their while to support it. It's kind of difficult for me to see one bill that's supposed to be solving a problem, and the other bill solving a problem, and then go out into my district and find the people involved going out of their way to tell me how bad the bill is.

Mr. GAUGHAN. Mr. Anderson, certainly both of the other segments of the industry are going to be able to speak more eloquently than I on their own perspective but if I could summarize it from my vantage point, there is a concern on the liner side, and it happens to be a concern that I share. It is rapidly focusing, that if the shipbuilding problem does require address by the National Government, beyond the level of Navy construction, that there are going to be some costs.

If there are costs involved, I feel that the most effective way is to deal with them directly. You deal with that problem and if there's money involved, the money is directed at solving that segment of the problem, but without the ties and linkages, or the burdens, that then falls onto another aspect of it. What I mean by that, are the tying devices that a U.S. liner operator cannot procure a vessel in a foreign yard unless it also procures one in a U.S. yard. That is a linkage which just dooms both sides to failure. This is, quite frankly, one of the problems that I wrestle with as the Administrator. Ideally, if you could go forward with a program to deal with the liner industry, and a program to deal with the shipbuilding industry in parallel, so that one part of the industry wasn't afraid that they were going to be left behind and, therefore, feel that they have to block the progress of another, we could advance the bill.

But in the face of the severe budget problems that we have, and the competition for those monies, we need to continue this dialogue on the shipbuilding side to raise it to a national issue so that the whole question of whether monies for shipbuilding rise, have a greater urgency to this country than say, mass transit money, or whatever, may be offered by the Administration, and then dealt with by the Congress.

And then you complicate it further—I used the example of mass transit. And much of that money is user-generated, and the monies for a shipbuilding program aren't user-generated. I don't know where you draw the line there. But it is not an easy one.

But I think—I'm sorry for rambling on, sir—but certainly the shipbuilding industry does not want to be left in the dust by allowing build-foreign to go ahead, and then finding out that they were left at the station and then, consequently, don't have any program. And until there's something done there, we probably will find ODS reform on dead center, and shipbuilding continuing to look for a solution.

Mr. ANDERSON. Thank you, Mr. Chairman.

Mr. JONES. Does anyone on this side need to be recognized?

Mrs. Bentley.

Mrs. BENTLEY. Today is Flag Day.

Mr. GAUGHAN. Mine is flying at home, ma'am.

Mrs. BENTLEY. And everything I've heard this morning, unfortunately, seems to indicate to me that we're going to have fewer and fewer American flags out on the high seas. And that disturbs me a great deal.

Take off your Maritime Administrator hat. Put on your member of the President's Commission hat. Okay? Do you think it's really important—or what is the situation today—concerning the skills in our shipyards?

Mr. GAUGHAN. I think that it is—you said it best in your opening statement, that there is increasing concern. I have a genuine concern about the disappearance of those skills. And the disappearance of base of, or pools of, those workers, such as has occurred in Baltimore where you don't have a number of facilities where, as the workload goes up and down, those workers may migrate within the community. They have no place to migrate to, and so forth.

Mrs. BENTLEY. Don't you think it's rather ironic, and I mean you mention it, but the shipbuilding dollar is competing against mass transit? I mean, really and truly?

Mr. GAUGHAN. Well——

Mrs. BENTLEY. I mean, we're losing a small shipyard, not in your area, the Coast Guard shipyard, because the money has gone to Amtrack and mass transit. And when you tell me that we're thinking more in terms of mass transit today than we are in what I consider an arm of national defense, I'm really bothered by it.

Mr. GAUGHAN. By using the mass transit example, I certainly didn't mean to walk myself into this quagmire. [Laughter.]

Mrs. BENTLEY. You did.

Mr. GAUGHAN. But, Mrs. Bentley, I think you can use that as an example of the larger debate that has gone on here within the Congress over domestic programs versus defense programs, and so forth. And I don't think that's going to change in the near future, certainly with the deficit as it is.

Mrs. BENTLEY. All right.

Let's go to a part of your statement where—put on your hat now—where you say that we can purchase a ship from a foreign yard for a half to a quarter of the cost bill here. I had an amendment put in the Defense Authorization Bill recently, which states in essence that an American competitor, American company competing against foreign bids in any item that is defense-oriented, shall not have to include in his costs, the American shall not have to include in his costs the cost of taxes in this country. Now, that means—and these are some of the taxes that are included in this higher cost in the American yard. That's the unemployment insurance. That's the Social Security. That's the profit on the business, if there is any, that they pay on income tax, and a host of other taxes that our companies are burdened with. And that has to be part of this cost that you're saying we can get cheaper. Well, you know, if we buy everything overseas, as seems to be the tendency of this Administration, my Administration, we're not going to have anybody paying taxes to keep the Government going. That bothers me a great deal.

And, would you go along with wiping out the tax figures when we're talking about competing an American yard against a foreign yard, that all the taxes, the burden of the cost of doing the business here, shall be eliminated, the additional cost?

Mr. GAUGHAN. I'm not so sure that I would necessarily, as an opener, say I agree with the elimination of those, but there might be another way of looking at it. And that is, if a U.S. yard is as productive as a foreign yard, in terms of however many man-hours it takes to use a ton of steel, or whatever, and there are then additional costs, whether they be taxes, whether they be the environmental requirements, or whatever, that make them non-competi-

tive, then maybe that ought to be part of our discussion as to what contribution or offset there is, from the Federal Government.

Mrs. BENTLEY. Well, I——

Mr. GAUGHAN. Now that's——

Mrs. BENTLEY. I'm glad to hear that, because I think——

Mr. GAUGHAN. Now, hearing that from me doesn't necessarily mean that you would hear that from everyone.

Mrs. BENTLEY. Well, it's a start, right?

Also, it might—we need to think in terms of what contributions to the imbalance of trade we are making by forcing the purchase of ships overseas. And that, you know, we're talking about the balance of trade every month. I mean, these figures seem to be controlling the whole economy. And when we're saying build overseas, and buy overseas because it's cheaper, because your figure, your imbalance of trade, the deficit, there is going to be bigger, and bigger, and bigger.

Mr. GAUGHAN. But, Mrs. Bentley, you make it sound as if there really is a realistic choice for a commercial—for someone in business, between building in the U.S. or building elsewhere. I don't think there is, right now, that kind of commercial choice. If their only option was to build here, they're not going to build here because it is going to cost them more money. Not only is it going to cost them more, it is going to take longer to get it finished. And they just aren't going to be able to survive.

Mrs. BENTLEY. Well, would you—you said you're willing to sit and talk. Okay, when you're sitting and talking, let's take into consideration all of these aspects. I'm not saying that the commercial operator has much of a choice, but perhaps our Government needs to help them more than they've been helping them recently. And I'm not laying this on your shoulders; I'm just laying it on the shoulders of this Administration, which has failed to really get into the lead on this whole shipbuilding picture.

That, I think, is very important. If we take all aspects into consideration when we're talking about whether it's a procure-and-charter, or build-and-charter, whatever it is, program. But I think we really—it's going to cost the Government some money. There's doubt of it. But stop and think about how much of that money is really going to go back in taxes and into other social items, that are important, and that we're going to be paying out in other forms; in welfare, and unemployment, et cetera, et cetera. Let's try and balance it out. I think that all needs to be brought into it.

Mr. GAUGHAN. Well, please don't overlook the tremendous amounts of monies that have been placed in the shipbuilding community through the buildup of our national defense. I asked—and it's very hard to get a number as to how much that is, ma'am, because, you know, if you're buying a weapon system to go on a vessel, that may not go to the shipyard or whatever.

But I asked my people to use whatever they call that standard identification code out of the Department of Commerce that catalogs goods and services from different industries. And, since 1982, it averages something like $9,700,000,000 per year that is attributed, at least in the Department of Commerce, to the shipbuilding industry, goods and services. That's a substantial amount of money.

Mrs. BENTLEY. Is that Navy? That's Navy, primarily, though?

Mr. GAUGHAN. Oh, yes, ma'am. It is. We estimate that about 80 percent of that amount is supported by Government work. But, nonetheless, that is still—that's people paying taxes and so forth, and so I think it's important that that be on the record, because when you don't have the luxury of doing everything because you can't afford it, you have to make choices. And this Administration made some choices—you may not agree with all of them, but they made some right choices also.

Mrs. BENTLEY. Yeah, they've made some, but not in the shipbuilding end.

Thank you, Mr. Chairman.

Mr. JONES. Mr. Brennan, I believe you wanted to be recognized.

Mr. BRENNAN. Thank you, Mr. Chairman.

Mr. Gaughan, despite the testimony we've heard, that there are no ships under construction commercially, and so forth, is it a fair statement to say that the Reagan Administration not only has no program to do anything about it, they have no recommendations, absolutely nothing to be recommended to deal with the disappearance of the commercial shipbuilding base?

Mr. GAUGHAN. I don't think that's a fair statement, Mr. Brennan.

Mr. BRENNAN. Well, what do they have?

Mr. GAUGHAN. There are on the books, the capital construction fund (CCF), which does allow for the deferral of taxes on deposits that can be used to build vessels in a U.S. yard. The Title XI program remains in existence, although the level of activity in that program is down significantly because it reflects, quite candidly, the overall depression in the industry and the lack of a need for vessels.

The elimination, or the decision by the Administration not to seek CDS, or construction-differential subsidy money, in 1982, may have been, in hindsight, a tactical error, if you will. We could have probably sought monies for it, knowing full well that the American shipbuilding industry was not competitive enough to build a ship even with the 50-percent subsidy to it, but we could have avoided, I guess, the criticism by having that facade up there. We happen to have decided to hit it head on, and to acknowledge that the industry was not competitive in the world market.

Mr. BRENNAN. You say that they have the capital construction fund. But didn't the Administration propose to abolish that?

Mr. GAUGHAN. We have—I have testifed before this Committee that the Administration would seek termination of the Title XI program. But having said that, the Congress has not deauthorized it, and I will follow the law if applications come in and meet the requirements.

Mr. BRENNAN. From what the Administration hasn't done, wouldn't it be fair to conclude that the Administration just does not think it's important to maintain a commercial shipbuilding base?

Mr. GAUGHAN. I don't think that's accurate either. I think you need to look at what is the scope of the Federal responsibility. I think the Federal Government does, in fact, have a responsibility as shipbuilding relates to the national defense mobilization base. And that, if the industry sinks to a point where it endangers that

mobilization base, or the ability of the United States to meet its commitments, then it is incumbent on the Executive Branch to make proposals. I don't think we've reached that point.

Mr. BRENNAN. Would the virtual disappearance of the commercial shipbuilding base—we haven't reached the point where it would undercut National defense?

Mr. GAUGHAN. I don't think we're at that point yet, sir.

Mr. BRENNAN. What more can go?

Mr. GAUGHAN. Certainly if a number of the larger yards were to go, it would be of grave concern to the defense planners.

Mr. BRENNAN. But do I understand there are none being built right now, commercial ships——

Mr. GAUGHAN. There are——

Mr. BRENNAN. Cargo ships?

Mr. GAUGHAN. That's correct, sir.

Mr. BRENNAN. You can't get less than none.

Mr. GAUGHAN. I understand that.

Mr. BRENNAN. It just appears that the Administration thinks that this is apparently unimportant to national defense, if they have not even a single recommendation, real recommendation to maintain the base.

Mr. GAUGHAN. I think, Mr. Brennan, if the costs are such that for tremendous outlays of money it results in only the building of a handful of ships, then you really haven't solved the shipbuilding problem, and you have, in fact, potentially spent a lot of the public's money that there is a demand for elsewhere, to no particular advantage.

Mr. BRENNAN. Thank you.

Mr. JONES. I recognize the Gentleman from Virginia.

Mr. PICKETT. Thank you, Mr. Chairman.

Mr. Gaughan, the logic of this policy is a little bit difficult for me. On the one hand, we're saying that the ship operators can't compete, but it's okay to subsidize. On the other hand, we're saying that the shipbuilders can't compete, but it's not okay to subsidize. Now, tell me, what the difference is?

Mr. GAUGHAN. First of all, the operators; we have sought to aid operators in becoming more competitive through our ODS reform program, which calls for some disciplines in the program, reduced manning and so forth. I think it becomes more a question in the shipbuilding industry that—and I'll go back to 1982—that, in looking at the costs associated with construction in a U.S. yard, even a 50-percent subsidy was not enough, and there was no point in pouring that money down a rat hole, because you could go to 75 percent, or you could go to 100 percent, and it still wouldn't make them competitive.

Mr. PICKETT. Well, you're just saying that the difference between the competitive position of the shipbuilders is less favorable than the difference of the competitive position of the operator, and for that reason you prefer the operators over the builders?

Mr. GAUGHAN. I wouldn't say it's a preference of the operators over the builders. I think there is a need for both segments of the industry. I don't think that the fates of the two should necessarily be linked together. On the operating side, you have seen a contraction in the number of companies, and there is certainly a legiti-

mate sealift requirement for an operating fleet, and there's also a need for a shipbuilding industry. And there have been, as I mentioned before, by my numbers, and they may be different numbers from the Armed Services Committee, in the neighborhood of $8 billion a year that has gone to the shipbuilding and repair industry as a result of Government contracts. So, it is not as if they have not been without support from this Government, sir.

Mr. PICKETT. Isn't the fundamental underlying issue, really, whether we're going to have a system of water transportation to serve the Nation, just like we have gone and developed a system of land transportation within the country? And you were using analogies this morning, and in the case of land transportation we have locked onto the motor fuel tax as the principal way that we finance highway improvements.

Why doesn't this Administration look at some options to impose a user fee of some type that could support the maritime industry that we need, both the construction of ships and the operation of ships?

Mr. GAUGHAN. The Administration had, in early years, certainly looked at a user fee on the peripheral—the periphery of your question, sir, as it related to the provision and providing of Coast Guard services, aids to navigation, and so forth. That did not meet with any widespread acceptance.

I will certainly go back and look at it in the context that you raised the question. I'm not sure—I don't have any immediate reactions as to where or how it would be appropriate, but I understand.

Mr. PICKETT. Thank you.

Thank you, Mr. Chairman.

Mr. JONES. Any further questions?

Mr. BENNETT. May I inquire?

Mr. JONES. Yes. The Gentleman is recognized.

Mr. BENNETT. All right.

When Congress established the Commission on Merchant Marine Defense, it contemplated, as shown by the hearings, and by the speeches on the Floor, and by the language, that the Commission would make recommendations, statutory recommendations. The Commission has done an excellent job in analyzing factual material, but we have yet to receive any statutory recommendations. And that makes it very difficult, because one of the main purposes of having this Commission was to come forward with as much homogeneity as we could have, on the part of the Executive Branch, to come to the Legislative Branch, and say here's what we recommend to be done.

Is there any way in which we could come forth with some statutory recommendations? Now, when I have talked to people on the staff, and others in the Commission, about this, they have suggested that I draw up, or somebody else in Congress draw up, statutory recommendations. I have no objection to doing that. I don't have the staff to do it, but maybe I can get the staff, indirectly one way or the other, and when the authorization process—the conference between the House and the Senate is over, I expect to be able to channel more of my interests in that direction, but I really would like to see, since you do have a staff on that Commission, that at

least drafting type of activity could occur, even if you couldn't get homogeneity of approval in the Commission.

Is there some way you could take that message back to the overall Commission, say I'm still waiting for the statutes, and it would be very helpful if you did it?

Mr. GAUGHAN. Mr. Chairman, a couple of comments, if I could.

One, I believe Dr. Cameron from the Commission is going to testify later. I don't mean to steal his thunder. The topic of legislative proposals was——

Mr. BENNETT. I don't want to pick on you, but I may not be here when he's here, because I may be in conference.

Mr. GAUGHAN. Well, then let me answer for him.

The Commissioners, at our last meeting roughly three weeks ago, spent quite a long time debating precisely this issue within the confines of the Commission. And we have asked the staff to provide us with what we call a legislative proposal. It is not—we recognize that we don't necessarily have the expertise of legislative counsel to get it into all of the precise legislative language, but we asked, as a starting point for consideration——

Mr. BENNETT. I'd like to lend you my ability to ask for that. In other words, if you can get that kind of language, I can put it in the hands of the Legislative Counsel of the House, and then we could bring it back to you. So, that's not a problem.

Mr. GAUGHAN. They have, the Commission staff, has just sent out to all the Commissioners the first cut at what this would look like with the idea that it would be a topic when we meet in July, to then see whether these grand ideas we had in the recommendations can, in fact, find some sense in a proposal.

Mr. BENNETT. I'm glad to have that news. Thank you.

Mr. GAUGHAN. Now, whether anything emerges, sir, is going to be subject to the hammers and tongs of each of the Commissioners sitting around and trying to——

Mr. BENNETT. And you might not agree, but you might get out a minority or majority, or you might get out something that we can't agree on this, but our souls tell us it's the right thing to do, although our interests tell us we can't do what our souls tell us to do. If you can get something before us, even if it's not official by the Commission, it would be helpful. It would be much more helpful if it was official, but——

Mr. GAUGHAN. Well, I don't want to commit to what the outcome will be, recognizing that there are other Commissioners, sir. But we're working at least in that same westward direction.

Mr. BENNETT. Well, one finite question before—and this has been touched on before. Has the Commission decided what level of shipbuilding should exist because of the defense needs in this country? In other words, beyond which we should not go?

Mr. GAUGHAN. We, in our initial Findings of Fact and Recommendations, called for this procure-and-charter program of 12 ships a year for 10 years. Whether that's the right number or not, we are revisiting that. We are also trying to look at the cost benefits that go with it, recognizing that there are significant costs. We are certainly trying to marry any kind of shipbuilding recommendation to what we've identified as the needs on the sealift side. But, whether that's the final number is still——

Mr. BENNETT. Well, that would be very helpful if you could give us that. That would be a finite fact. It would be at least your judgment that that was what we ought to do. That judgment is something we'd like to have, because it becomes fairly authoritative even if you just assert it.

Which leads me to the next thing, and that's the question of leadership. A problem exists in all government that it's easier to manage than it is to lead. And there's a tendency to say, well, that's not the law. And you're talking to the lawmakers. So why is that a problem? Unless it's prohibited in the Constitution, we could change the law. And that's what we need to know from the Executive Branch.

Now the Executive Branch was elected to do the executive functions of this country. And we in the Legislative Branch listen to what they desire, and react to that, and try to bring out a package. I think a lot of the problem about this is that we're somewhat wedded to things as they are, and we can't change them, and our unhappiness that things aren't better. There's a degree of finger-pointing here, and as some religious group says, one finger pointing at you, three will point back at you. And after all it is our responsibility. In other words, it's not the responsibility of industry.

Another thing which is worthy of thinking about is that, although a lot of us here feel a rapport and an emotional tug and a desire to be supportive of the shipbuilding industry, that's not really why I came back to this Committee after 30 years of absence. I was on this Committee when I came to Congress in 1948, but I'm back here now because of the fact that I'm Chairman of the Seapower Subcommittee of the Armed Services Committee and I am alarmed at the fact that we cannot move adequate material, and I think a conventional war is much more likely than a nuclear war.

When the President of our Country announces that there's no way to win a nuclear war, you have to be sort of dumb to think it's very credible to think that the threat is much more than just keeping nuclear weapons from being pointed at us. In other words, nuclear war today with that kind of a definition is simply impossible, and the nuclear strength is there simply to keep somebody else from using it, or threatening. So, the viable problem is a conventional war. And a conventional war will require the movement of lots of things by ship. Only five percent of the stuff was carried in the Vietnam War by air, and most of it by ship. So, it's got to be done by ship.

Now, I think there's too many problems that have been borrowed from the past in this situation. And some innovative sort of things might be thought about. Now, I'm not saying these are things that are not already on the statute books, perhaps they are, or that maybe they're not workable. But one would be, for instance, since we are at such a very low level today in production of these ships, why not look at the shipbuilding concern as a whole, and say that any additional income taxes, both in the corporate field and in the individual seaman and crew field, should in some way be isolated and put into a trust fund and be used to bail out the industry. That would be a way to get money other than by a general taxation.

Another way to get money without doing it by general taxation is simply to say, since we are the greatest industrial and commerce-producing nation on earth, by far, both export and import, why should we be just 15th in the merchant marine? Why isn't it our responsibility in the Federal Government to solve that problem? Why do we leave that up to stockholders and executives of corporations? Is it their fault? It's our responsibility in the Government. It's not their fault; they're not the Government. They will react to whatever the Government says, just like a soldier does when he is drafted if he's drafted in time of war. And so we ought to be making up our minds as to what we think ought to be done about it.

Which leads me to think that maybe, for instance, another program you might think about is, in addition to having income taxes put into a facility, having the requisite number of proper ships built by the United States Government, and rent them to private industry. I don't see why that's not feasible. These would be ships that would be built primarily for defense purposes, what would be used with whatever crews we'd find appropriate. And I would certainly lean toward American crews, but I wouldn't, if they changed their policy from what they said when the Commission was being established. Then they said we'd like to get more jobs for the seafarer.

Mrs. Bentley, as well, pointed out that now these jobs are somewhat expensive because of all the things that we require: environmental, social security taxes, and all these sorts of things put on the back of them. And I don't know why that's the fault of the industry particularly. That's a policy of the United States Government. It being the policy of the United States Government, we shouldn't say that's a barrier to us solving the problem; we ought to solve the problem by addressing that problem, by looking at it and seeing to it that it's fair to the industry. You can't tell me the American people are not—don't have the brains and don't have the courage. We're not dumb. And we're not disabled. And the Government has the responsibility to see that this works.

Now, another thing which I thought when I read the Commission's report that concerned me somewhat was an apparent feeling that it was almost unthinkable that we should require all United States commerce to be in U.S. ships. I'd be glad to have it all done in United States bottoms. Why not? I mean it's up to us to say this. Now, you might say that's protectionist. Well, yes, it's one way to protect. Another way to protect is to subsidize the ships like they do abroad. They subsidize the ships. If you're not able to get the political "oomph" in the Executive Branch, or maybe in the Legislative Branch, to subsidize the shipping directly, well, there's an indirect way of subsidizing. You might just say, okay, it's got to be carried in on American bottom or it won't be carried at all.

Now, who pays for that? Well, who pays for that really is the consumer. But that's sort of anti free trade; so we're not very happy about it. But if you can't do one thing, you do another.

Now, you may not be able to bring out with unanimous support. I don't have all those answers, but we need more constructive, creative, thoughtful approaches to this, and there's no excuse, whatsoever, for the Executive Branch, or the Legislative Branch, to say to

industry, we're giving you $9 billion a year and you're not doing much with it. We're the daddy. In other words, we make the decision. The question is whether or not we're going to solve the problem. And we created the Commission to try to solve it, and as much as I love every member of it, maybe it's impossible to do. Maybe our political sense was not adequate in the thinking that the Commission could solve it. But do the best you can to come out with some recommendation, and be innovative about it. And I would say to you, to put a question to the Commission, why aren't you in favor of requiring everything to be carried in United States bottoms?

I really come from the fact that I think that, if we ever have a war, it's going to be a conventional war. I think if people on the other side think, well, gosh, they can't possibly get enough stuff there in time, we can be through with Europe in a couple of weeks. That's the estimate today, less than two weeks they can overrun. And we stand saying, well, we're going to use atomic weapons against you. Well, how credible is that when the President has already said—this President has said, nobody can win a nuclear war. How credible can that be? It's not very credible. So, we obviously ought to get on with having the ability to at least slow down the need to go to a nuclear war.

I would hope that the Commission would, number one, come up with legislation; number two, be a little more innovative in the things they think about, including why not have a total carriage of all United States commerce in United States ships? And why not build ships which can be rented out to private industry? Obviously, it would be a great subsidy. That would be a way to have a subsidy. But it's a subsidy which the American people will support. And they will also support one, in my opinion, that uses income taxes from shipping sources tapped for a fund which could be spent back in turn into the maritime industry. Those are creative ideas—the best I could come up with; and I encourage the Commission to look into any creative ideas that they can surface. I think we are not innovative enough in this field, and I think the American people will justify the types of subsidy which I referred to. They don't want to have additional direct taxing. They don't mind having a situation in which we take care of our defense needs and rent out these facilities. They would not mind having, in my opinion, income taxes captured for a trust fund, and these other things that I've suggested. Could you take that back to the Commission and ask them to answer some of these questions for me?

Mr. GAUGHAN. I most certainly will.

Mr. BENNETT. Okay.

Thank you a lot. That's the end of my speech.

Mr. JONES. Mrs. Bentley.

Mrs. BENTLEY. Thank you, Mr. Chairman.

Before I ask Mr. Gaughan the question I have, I want to commend Mr. Bennett, because he's the one who initiated the legislation——

Mr. BENNETT. You're the one that spurs me all the time. You keep me going.

Mrs. BENTLEY. You're the one that puts it through, and that's important. And your statements have been very excellent.

You were talking about emergency today, and I just want to point out that if we did get into an emergency now, we're in much worse condition than we were in World War II, because our industrial base is now 7,000 miles offshore. And we don't have that industrial base there. And if we don't have ships to carry the stuff back, we're in real trouble.

Mr. Gaughan, you were, throughout all of these statements this morning, you've been noting about the cheaper cost of building the ships overseas. And this is, of course, the reason why it's all gone that way. In my opening statement, I referred to this situation of the frigates being built in West Germany under FMS funding, and whereas Todd Shipyard, which had done the design and all of the preliminary work had actually the lower cost. Now, we've also been talking about the Aegis Mission Cruiser going to Japan, and this is something Mr. Bennett and I have both been fighting. And here, again, we've been told that to build the ship in this Country would be cheaper by some $200 million a copy. And yet—and yet, our Defense Department and our State Department in both of these instances did absolutely nothing, are doing nothing, to see that that work is done here where it is cheaper, where we need the work. Because they're saying they need the work over there.

Does MARAD ever stand up to these agencies and say, hey, come on, our shipyards are the ones who are in trouble; we can do the work; in these instances we have the expertise, and we can do them cheaper? I mean, do you ever beat on these people? I'm curious.

Mr. GAUGHAN. Mrs. Bentley, I think you know me well enough that—and probably we've disagreed in the past because of my style—I don't beat on people very often. I've certainly had discussions with various elements within the Administration about particularly the situation where if it can be done in a U.S. yard, at a price that's comparable to a foreign yard, why it isn't done here.

Mrs. BENTLEY. Well, the frigates are——

Mr. GAUGHAN. I can't—and I apologize—I can't speak to either of those two particular ones because I have not been party to all of the considerations that go beyond just the fact that Japanese shipyards need work. There are, I'm sure, national security considerations far beyond that, that I'm not——

Mrs. BENTLEY. National security is here.

Mr. GAUGHAN. I understand, ma'am.

But you'd have to ask people directly involved with those decisions as to the broader reasons. I'm just not competent to answer those.

Mrs. BENTLEY. Do us a favor, and ask these questions of them if you would. Ask DOD, the Navy on the Aegis, and ask them on these frigates in Germany, why when American yards could do the job cheaper and also preserve the technology here, why are they pushing them overseas? I would like to have that answer.

Thank you, Mr. Chairman.

Mr. JONES. If there are no further questions, Mr. Administrator, thank you very much for your appearance here this morning.

Mr. GAUGHAN. Thank you, Mr. Chairman.

Mr. JONES. Our next witness is Mr. John J. Stocker.

Mr. Stocker, your prepared statement will be inserted immediately following the oral presentations. You are recognized, sir.

STATEMENT OF JOHN J. STOCKER, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA, ACCOMPANIED BY DAVID H. KLINGES, PRESIDENT, MARINE CONSTRUCTION, BETHLEHEM STEEL CORP.; AND GEORGE A. SAWYER, CONSULTANT

Mr. STOCKER. Thank you, Mr. Chairman.

I have here with me today on my left, Dave Klinges, who's President of the Marine Construction Group at Bethlehem Steel Corporation; and on my right I have George Sawyer, former Assistant Secretary of the Navy for Shipbuilding and Logistics, and former President of TRE Corporation in Santa Ana, California.

Mr. Chairman, I'm in a quandary as to how to proceed this morning. I'd like to ask that my prepared comments be entered into the record.

Mr. JONES. Without objection, so ordered.

Mr. STOCKER. I could, in fact, summarize those prepared comments, but so many incredible statements were just made a few minutes ago, I feel compelled to respond to them. So, what I would like to do is respond to the statements Mr. Gaughan made and then move on with a very, very brief recitation of how we perceive H.R. 4662 and H.R. 4704.

Mr. JONES. Are there any objections?

[No response.]

Mr. JONES. If not, so ordered. You may proceed.

Mr. STOCKER. Thank you, Mr. Chairman.

In appreciation of Mr. Bennett's comments, I think one of the things that we've heard this morning is the complete lack of leadership on the part of the Administration insofar as it regards policy directed towards the shipbuilding industry of the United States.

Not only, as Mrs. Bentley pointed out, has the Administration abandoned us in regard to foreign military sales in these two projects that she very eloquently described, insofar as the Greek frigate program and the Japanese Aegis program, but in addition to that we've had a series of allegations—and I might add, unsubstantiated allegations—about the cost and productivity of this industry, an industry that produces perhaps the finest Navy in the world; that has the technological expertise to produce everything from nuclear aircraft carriers right through cruisers and destroyers, the very kind that the Japanese are interested in.

And this same Administration, which continuously beats on us to try to encourage us to perform—and let me add as a footnote, that we always can bear with encouragement to perform—is the same Administration that refuses to get involved in international negotiations that affect international commercial shipbuilding.

I would like to point out to the Committee a publication from London, England. It's called LLOYD'S LIST. It's an objective, informed publication in regard to both international shipping and shipbuilding. The publication date is Wednesday, June 8th. The headline, "Japan in Ship Price Deal with EEC." Let me just quote from it—bear with me, Mr. Chairman—"Japan and the European

Economic Community have agreed to set a reference range for ship prices as part of a concerted drive to bring stability to the world shipbuilding industry. The decision came during talks between EEC officials and Japan's Transport Ministry, and follows a bilateral agreement on cooperation in April. The two sides are to set up a working group later this month which will provide details on a reference range, which it is hoped"—and this is the part that's critical—"will stop shipbuilders quoting for work at prices below the cost of production."

[EDITOR'S NOTE.—The referenced article can be found at the end of the hearing.]

This is not a Shipbuilders Council publication. This is a private British publication. Despite the statements that appear in this press account, to which Mr. Gaughan has access, we are still being told that our costs are too high, our prices are too high, and that we're not productive. Compared to what? We've just had an indication here that world shipbuilding prices are below the cost of production. There is no government in the world, Mr. Chairman, that can continue to do the things that they've been doing over the past 20 years in terms of supporting their industry at the cost to their Treasuries. And yet, in this very publication, we've had a statement made that there are discussions going on that will in effect increase prices of ships around the world, that will lead to reduction in capacity in various industries around the world, and the United States Government ignores it. There is no participation at any official level, either at the State Department or the Maritime Administration, in these sets of discussions.

So, we're going to let Japan and the Europeans create a cartel from which we will be effectively excluded. And yet, we have no leadership. I'm sorry if I sound a bit emotional, but Mr. Gaughan, who I like very much, and who we've had wonderful conversations between the two of us, frankly amazed me this morning by his comments.

What can the Administration do? It could begin by making sure that we play in these discussions. What can the Administration do? Mr. Gaughan mentioned the National Shipbuilding Research Program, as an effort that the Administration had engaged in in support of the shipbuilding industry. This is the same program that he has systematically cut in terms of funding over the past three or four years, to where we have exactly one project funded at $500,000 for this fiscal year. And can the industrial sector speak to one another to make a maritime policy without Government leadership? I defer to Mr. Bennett's statements in that regard.

And yet, Mr. Gaughan signed a document from the Commission on Merchant Marine and Defense that essentially was in direct counter to everything that he said to you this morning.

Let me turn specifically to H.R. 4662, Mr. Chairman. I don't have to go through the litany of problems associated with this industry. But I can tell you that the declines in employment and number of facilities, despite Mr. Gaughan's comment this morning, continue. We have 11 shipyards that are currently out there with a single contract in hand. Of those 11 shipyards, six will have no contracts by mid-1990. So, we have a very serious mid-term problem where we can see six major shipbuilders with no work by the second half

of calendar year 1990. And yet, Mr. Gaughan indicates that there has been an increase in the number of facilities, an absolutely amazing statement.

Let me quote from the Commission's report, "That the lack of commercial oceangoing ship construction has been a major factor contributing to the decline of American shipbuilding capability, and that maintaining the shipbuilding and ship repair industries, their industrial suppliers, and the design expertise required to support the mobilization effort during a protracted general war is essential to deterring, or if necessary, to winning such a war."

As I've mentioned, we've got a number of yards that are in critical need for some new work. I don't need to go through that litany again, but if we don't get some commercial work I've got six or seven major yards in serious trouble of closure by the second half of 1990.

In H.R. 4662, the Council has attempted to be fully supportive of the efforts of the Committee to craft legislation which supports the entirety of the industry, not just one segment. I should also add as a footnote, Mr. Chairman, that we did this essentially in attempting to put into legislative form what Mr. Bennett was looking for from the Commission; that is, essentially, the Commission's recommendations. The philosophy of equal treatment for all elements of the industry was the hallmark of recommendations of the Commission on Merchant Marine and Defense which the Council is already on record as fully supporting.

I might add, just for some statistical background, Mr. Chairman, that since funding for the CDS program was zeroed by the Reagan Administration in Fiscal Year 1982, only 18 commercial oceangoing ships have been built in this country. These vessels were all constructed for the protected coastwise trades. By the way, I also find it incredible that a Maritime Administrator, one of whose functions is to support the shipbuilding and ship repair base in the United States, would argue that they made a tactical error in 1981 by zeroing CDS, because we were too inefficient even to perform at the level that CDS was provided at; that is, 50 percent of the cost of the ship. If that isn't machiavellian and cynical, I don't know what is.

Conversely, in that same period, 44 ships have been built or converted abroad for U.S. registry and are eligible for the benefits of the ODS program. During Fiscal Years 1981 through 1986, U.S.-flag operators received a total of $2.1 billion—$2.1 billion—in direct Government subsidies from the ODS program, while the shipbuilding industry has received no benefit from the CDS program. Obviously, the ship operators are as important as mass transit, but the shipbuilders aren't.

Despite the obvious tilt in maritime policy toward the operators in this decade, the Shipbuilders Council is ready to support the build-foreign provisions of H.R. 4662.

At its March meeting of this year, the Board of Directors of the Shipbuilders Council agreed, in the interest of all sectors of the U.S. maritime industry, to support the elements of the Commission's report recommending some build-foreign authority for U.S.-flag liner operators. This is a major concession on the part of a beleaguered industry. What we have agreed to is very simple. For any ship built in a U.S. yard, the purchaser receives from the Gov-

ernment the authority to order overseas a ship of equivalent size, tonnage, and complexity. I might add that our provision also provides for that same authority to build overseas for a company that charters a vessel under the procure-and-charter program. So, we've attempted to be as flexible as possible, and yet try to downplay some of the linkages between operators and builders, the very things that they're complaining about. We do not, and will not support the concept of a window for shipping lines which would permit them to order unconstrained numbers of ships overseas. Please be assured that the shipbuilders are more than willing to work with the other members of this industry for the common good, but we are not prepared to step aside and allow a flood of foreign-built ships to enter the U.S.-flag fleet unless there is a fair and equitable business base for the commercial shipbuilders of this Nation.

H.R. 4662 would also modify the Merchant Marine Act of 1936 to establish a Procure-and-Charter Revolving Fund in the Treasury which would provide for the construction of ships in the private shipyards of this Country. These ships would be capable of serving as a naval or military auxiliary in time of war or national emergency, or are economically viable, or are determined to be otherwise unavailable in sufficient numbers in time of war or national emergency should occur. These ships will be built for the Government account and will require annual appropriation for their construction.

Nevertheless, in a period where the budget belt is tightening, the possibility of adding a new billion-dollar-a-year program of any sort is very slight and will require extensive discussion and debate. We recommend the establishment of the fund as the first necessary step in that process. However, fiscal realities would appear to dictate that the appropriation of monies for the fund is sometime in the future. Therefore, we believe that the most timely method to initiate assistance to the operators and the shipbuilders will be to legislatively establish a two-fleet system which would allow for limited and controlled worldwide procurement of ships eligible for ODS while implementing a new domestic commercial shipbuilding program.

We would envision this fleet as containing a commercial component that would be dependent on commercial cargo, and the second half of this fleet would essentially be U.S.-built ships for the carriage of Government or Government-impelled cargo. And I might point out that, under the Commission's report, the Commission's recommendations, they also identified Government cargo preference programs as one way of sustaining the maritime industrial base.

The Subcommittee has also asked for our views in regard to H.R. 4704, the National Oceanic and Atmospheric Administration Fleet Modernization Act of 1988. We strongly support H.R. 4704, and urge its quick passage. We certainly need to be doing more oceanographic research, and in some of the programs we're engaged in with the Navy, we're already making some progress in this area. And as you have said, Mr. Chairman, while this bill certainly is not a cure-all for all of our problems, it's certainly a positive step in the right direction.

The bottom line, Mr. Chairman, and Members of the Subcommittee, is that the hour is getting late for all segments of the American maritime industry; operators, seagoing labor, and shipyards. Unless we are all willing to give a little, I can assure you that the maritime community will slip further into a dark abyss.

Regardless of the final outcome of the proposed legislation which we have strongly endorsed, we clearly see bleak prospects for the Nation's private shipbuilding base for domestic ship construction and repair business. The ever downward spiral seems inevitable for the foreseeable future. At the same time, however, we also see the growing international competitiveness of U.S. smokestack industries in general; at least over the short term. In recognition of these trends, I'm pleased to announce that the Shipbuilders Council of America has created an Office of Export Assistance to help our industry, which traditionally has not been export-oriented, become more actively involved in the international arena. At current levels of international currency exchange and productivity, and given a level playing field in financing and other incentives, we believe that our industry can compete with Northern European yards for commercial vessels. And we strongly believe that, in the Foreign Military Sales arena, an entirely U.S.-built-and-delivered complex warship is currently less costly than any comparable foreign derivative, even in the Far East.

The basic function at the Council's Office of Export Assistance will be to provide market assistance for all its membership.

We strongly believe that this proactive initiative is timely and will be effective in promoting new business opportunities for our beleaguered but vitally important private United States shipbuilding industry.

So, as you can see, Mr. Chairman, we're prepared to do what we have to do to help ourselves. However, we need leadership, and particularly leadership from this Administration.

Thank you very much, Mr. Chairman, that concludes my prepared remarks.

[The prepared statement of Mr. Stocker can be found at end of hearing.]

Mr. JONES. Thank you, Mr. Stocker.

Do the guests at your table desire to be heard?

Mr. STOCKER. No, Mr. Chairman.

Mr. JONES. Fine. I have a few questions here, if I might.

Can you give us some of the specifics the bill does not provide, the number of vessels to be built, the amount of the funding required, the timeframe of the funding, and the type and size of vessels?

Mr. STOCKER. Mr. Chairman, since we essentially structured the procure-and-charter portion of the bill in deference to the recommendations of the Commission, we stand with the Commission in urging the construction of 12 ships a year over the next 10 years.

Obviously, as Mr. Bennett has pointed out earlier, we need to get into a discussion with the Commission of what kind of ship types they are looking for. I don't disagree with a statement made earlier this year by Senator Denton, that we're probably looking at around $900 million-$1 billion a year to start his program.

Mr. JONES. All right.

Shipowners recommend dual-track legislative consideration of proposals to assist operators and shipbuilders. Would you support such an approach?

Mr. STOCKER. I don't think that any new effort to rewrite a maritime policy, particularly during the course of the remaining months in this Session, should involve separate tracks. I think we'd be very concerned if separate tracks were, in fact, followed.

Mr. JONES. How do you respond to the assertion that H.R. 4662 could harm existing Jones Act operators because of over-tonnaging?

Mr. STOCKER. I think, in fact, Mr. Chairman, upon further review, looking at the language, that we could certainly step back and take a look at the impact on the Jones Act of these vessels. Some of the Jones Act operators have indicated some concerns with us.

But this just emphasizes a point I tried to make earlier, Mr. Chairman. We have no pride of authorship. This is not the Bible. We are attempting to start a dialogue and, in fact, have been very pleased to see the Jones Act operators come to us and say, look, we have some concerns with the legislation. Let's sit down and talk about it. At least there's dialogue going on. So we could certainly take a look at that.

Mr. JONES. Good.

Would operators find it economically feasible to charter the vessels that would be built under H.R. 4662?

Mr. STOCKER. We haven't seen any evidence, any quantitative evidence, that would indicate that they would be at an economic disadvantage. In fact, the whole concept behind procure and charter is to ease the capital asset cost associated with building a ship unsubsidized in the United States. And we would expect that being relieved of that capital asset cost, it certainly would allow them to compete more fairly in the international arena.

Mr. JONES. Thank you.

Any further questions?

Mrs. Bentley.

Mrs. BENTLEY. Mr. Stocker, Mr. Gaughan mentioned that there were 116 shipbuilding and ship repair facilities in the Country. I find that hard to believe, but maybe my knowledge is limited. Could you agree with that figure?

Mr. STOCKER. Absolutely not. And, in fact, Mrs. Bentley, the data that we have, which goes back and tracks the shipyard mobilization base since October of 1982, based on an analysis that was done in the Navy Department in the SYMBA study (the Shipyard Mobilization Base Analysis), identified 110 private firms employing 112,000 people.

Now there were a variety of firms whose facilities fit into a number of different areas that the Navy was concerned about, in terms of floating docks, graving docks, all the way down to the small firms that were capable of doing topside repair. The vast preponderance of those firms, I might add, of those 110 were, in fact, small topside repair firms. Today, when we look at that same list, there are only 69 of those facilities open.

So, I frankly don't understand where Mr. Gaughan gets his list of 116. I hope he's confusing two different sets of data. Because the

Commission looked at a broader base and found, going down to some very small mom-and-pop operations, employing less than 10 or 15 people, and found that the job loss and the facility closure was even greater than in the base that we've been analyzing since 1982.

Mr. KLINGES. May I make a comment?

Mrs. BENTLEY. Yes, Mr. Klinges.

Mr. KLINGES. In 1980, Bethlehem Steel had over 12,000 employees in its shipbuilding division. That was down from a World War II high of 185,000 when we were the biggest shipbuilder in the world. Today we have less than 2,000 people. I'm shutting down my Beaumont, Texas operation in August. That will leave us with only the Sparrows Point operation, which runs out of work in the first quarter of 1989. I don't know where my next job is coming from, and if Mr. Gaughan needs to have more shipyards shut down to validate his need for further indication of a fall-off in capacity before he does something, we have a very, very strong signal to send to him that we've got to do something in the next nine months, or we're history.

People going out of business have included such fine organizations as General Dynamics in Quincy, and Lockheed in the State of Washington. You've got to find a lot of small boatyards around the Country to compensate for what's happened to the capacity of this Country for what those people brought to the shipyard mobilization base. So, the hour is indeed grave, and I'm absolutely appalled at the suggestion that we may need help. It's an astonishing statement for a Maritime Administrator to make.

Mrs. BENTLEY. Mr. Sawyer, you were in charge of shipbuilding at the Navy for several years. We're glad to have you here today.

Mr. SAWYER. Thank you.

Mrs. BENTLEY. When you were there, was the Navy doing any planning, or was there any concern at all with the state of the shipyard industry, the ship repair and the shipbuilding industry and what its availability would be in time of emergency?

Mr. SAWYER. Very definitely. In fact, some of the studies that have been referred to today were initiated at that time; for example, in 1982. And results of our study showed that there was considerable concern.

I might add that since 1980 it seems that everybody in this town has claimed that the 600-ship Navy was going to solve the shipbuilding problem, except for the United States Navy. I think as we said then, and I think they'll say right up until now, that the Navy construction alone cannot really address this problem. The issues are much too complex for that.

Mrs. BENTLEY. And I think those who are depending on Navy repair work to help carry it through, what I'm finding and maybe you've heard it, and I'm going to ask Admiral Piotti this—I'm putting you on notice—I'm hearing that some of the funding that would normally go for Navy repairs and maintenance work, and overall work: A is going into the Persian Gulf expedition, and B is being used to pay up the default in Champus, the military medical insurance program. And, therefore, this is a further blow to the Navy yards. Have you heard anything on that?

Mr. SAWYER. No, ma'am. I'm a total civilian these days.

Mrs. BENTLEY. Okay.

I know you're a total civilian; I just thought you might have heard some of the gossip in Washington. [Laughter.]

Mrs. BENTLEY. Mr. Stocker, in this West German/Greece frigate contract, are you aware of any effort at all made by any U.S. Government agency to say, hey, you know, we're really cheaper over here, our shipyards need help, let's do it here?

Mr. STOCKER. What we understand occurred at the very last minute when faced with what the German government was doing, the Defense Department and the State Department made a decision to offer to the Greeks the use of two of the frigates that we're retiring from our Navy, because the Greek Navy requirement for surface combatants is critical and they have a short-term need, and this was a way of trying to offer them a method to solve that short-term problem.

And the Greeks were certainly interested in that, from what we can understand. The problem was, that in the Government's infinite wisdom, the ships were tied directly to the base rights negotiations. As a result, what has started out as a competition for the construction of ships for the Greek Navy, rapidly became an international diplomatic negotiation. As you are probable well aware, this is a very, very sensitive political issue in Greece, so obviously, it was not a great inducement for the Greeks to accept the U.S. offer.

Let me add that from our point of view, we can fully understand why the Greeks made the decision they did. I mean, obviously, the Germans did everything they could to sweeten the deal. Now, when you go back and you ask the question in Defense and State, why didn't we do more, they believe, Mrs. Bentley, that they're locked within statutory restrictions that made it impossible for them to do more. Se we have really a critical, and very interesting policy debate here. What should be the proper role of the United States Government in these kinds of deals? European governments do not shy away form active participation as this case study clearly identifies. And if we want to continue to see an important sector of our industry lose out on opportunities like this, then we can continue what we've been very good at doing in the past, which is doing nothing.

Mrs. BENTLEY. Well, it's not only European governments who don't hesitate getting into it with both feet, but our friends on the other side, Japan, Korea, and the others——

Mr. STOCKER. That's right.

Mrs. BENTLEY. They all jump in, but it's very depressing.

Mr. BENNETT. If the Gentlelady would yield at that point, I would hope that the staff would make a note of what has just been said. Maybe we can correct that statute, instead of just forgetting about it.

Mrs. BENTLEY. Very good. Thank you.

Mr. BENNETT. I hope the staff will bring that to our attention.

Mrs. BENTLEY. Also, while I think about it, Mr. Stocker, would you have copies of that Lloyd's article made and distribute them to us today. I'd like to have a copy of it today.

Mr. STOCKER. Yes, Congresswoman.

[EDITOR'S NOTE. The referenced article can be found at the end of the hearing.]

Mrs. BENTLEY. It is getting late in the session, as you well know, and if we're not able to fund a procure-and-charter program for Fiscal Year 1989 or 1990, do you have any other suggestions that may be less costly?

Mr. STOCKER. Part of the recommendation that we've been making to an awful lot of the Members of this Committee that we've been talking to over the past few weeks, because we understand reality, is to at least initiate a program, perhaps put some seed money in for ship design, particularly once we clarify what ship types we're talking about for the procure-and-charter program, or the next step in the program, in next year's appropriation bill.

But if we do that, we see as a quicker potential from the standpoint of putting some real business in the shipyards, the provision that would no longer allow foreign-built reflagged vessels to carry Government cargo. We've had some very negative reactions from the operating community about that and, while we understand it, I think our philosophy is, if the Government-impelled cargo and Government cargo preference programs in general were identified and supported as basically national security efforts, then what we're simply suggesting here is that those national security arguments be extended to the industrial base, as well as the operating community.

Finally, the other thing that we have to understand in looking at the economics of this is, yes, there would likely be freight rate increases to Government agencies, but on the other hand, we have to understand that the operating community will not be competing with foreign interests in this market. This will be American pitted against American, and it will be essentially a level playing field. What we have to ask is, is it proper public policy for Government agencies to go to low-cost producers no matter whether that has an impact on the national security or not. And we frankly question the use of foreign-built reflagged assets or foreign-flag assets, which as we know are being currently used in some areas within the Department of Defense, whether or not that makes good public policy.

Mrs. BENTLEY. Do you have any estimate of the cost of limiting preference cargoes to U.S.-built vessels?

Mr. STOCKER. That would be very, very difficult for us to do. If we had a good working relationship with the operating community, we could sit down and make a good estimate, because we are not operators. We don't know what those freight rates would be.

But we could certainly take a stab at something, at least getting the quantitative analysis going, and provide it to the Committee at a later date.

Mrs. BENTLEY. I've been around this industry for more years than I care to admit. But in all that time I keep hearing we need a national maritime policy. Have I missed something? Has there ever been a national maritime policy, with the exception of the 1970 Act, which extended CDS to bulk ships? But in the post-World War II era, has anybody really sat down—Mr. Sawyer, you may be aware or know about this—and said, we need this, we need that,

and let's do it, outside of this present Commission; I think was very good. But has the Government done it?

Mr. SAWYER. I can only speak for, of course, the time I was in Government.

Mrs. BENTLEY. Yes.

Mr. SAWYER. And during that time we certainly could not reach a consensus at all among the various agencies, from the White House on down. And many of us hoped that the Commission would create the proper forum by which one could be developed.

Mrs. BENTLEY. Thank you, Mr. Chairman.

Mr. JONES. Thank you, Mrs. Bentley.

Any further questions at this time?

[No response.]

Mr. JONES. If not, Mr. Stocker, thank you very much for your appearance here this morning, and the other two gentlemen.

Mr. STOCKER. Thank you, Mr. Chairman.

Mr. JONES. Our next witness is Vice Admiral Walter T. Piotti, Jr., United States Navy, Commander of the Military Sealift Command.

Admiral, your prepared statement will be inserted immediately following the oral presentations.

You may proceed.

STATEMENT OF VICE ADM. WALTER T. PIOTTI, JR., USN, COMMANDER, MILITARY SEALIFT COMMAND, DEPARTMENT OF DEFENSE

Admiral PIOTTI. Thank you, Mr. Chairman. I have a prepared statement, and with your permission I would like to insert it in the record, and at this time provide an oral summation.

Mr. JONES. Without objection, so ordered.

Admiral PIOTTI. I will not offer testimony on H.R. 4704; the Department of Defense, while it has interest, lacks responsibility in this matter.

I am pleased, however, to have the opportunity to discuss H.R. 4662, which would establish a procure-and-charter program.

As the single manager operating agency for ocean transportation within the Department of Defense, the Military Sealift Command is ever dependent on a healthy, efficient merchant marine—ships, industrial base, and people—and so we bring to this hearing a vital interest in H.R. 4662.

MSC is charged with the responsibility to move the vast majority of all material and supplies required by our Armed Forces in peace and war. As all peacetime cargo and the majority of wartime cargo is carried by commercial shipping, the U.S.-flag merchant marine is indispensible to the fulfillment of this mission.

Strategic sealift requires the capacity to deploy and sustain military forces whenever and wherever needed, as rapidly and for as long as operational requirements dictate. This requirement demands national commitment and is especially vital in today's world where the fragile peace we now enjoy is capable of spontaneous eruption at any time and where the forces of this Nation will remain at the forefront of every struggle to maintain world peace.

As I testified earlier this year, 40 of our 42 allies are overseas, and we are faced with a one-half million deadweight ton dry cargo shortfall and a 35-ship handy-sized tanker shortfall in 1992 and beyond.

In addition, we are faced with a pronounced shift toward ships which, although commercially competitive, are less militarily useful. The divergence between what is commercially viable and what is optimal militarily is increasing. Thus, many of the characteristics that make ships less than economical or competitive for commercial purposes are the very characteristics that enhance their military utility.

While H.R. 4662 proposes a method to sustain the shipbuilding industrial base and, by so doing, help reduce the foregoing strategic sealift shortfall, there is a very significant day-to-day cost associated with the proposals in the bill. DOD is supportive of any effort to maintain the industrial base; however, we do not believe it should be at a cost disproportionate to the advantages. We believe any such bill should be able to withstand a cost benefit analysis and doubt that H.R. 4662 could withstand such analysis.

The procure-and-charter program envisioned in H.R. 4662 is similar to programs proposed in 1985. At that time, the Navy testified that for such vessels to be commercially viable in international trade, the charter rate would have to be extremely low. The overcapacity in world shipbuilding and the resultant overtonnaging continues today and will for the foreseeable future. Accordingly, I do not believe it would be possible for these ships to be competitive even at the minimum charter rates the bill would allow. Further, since procure-and-charter ships are built for speculative charter vice firm, long-term charters as in a build-and-charter program, again, the probability of recouping that cost in an over-tonnaged, more competitive market would be slight.

H.R. 4662 would permit half of the ships to be built in foreign yards. As such, these ships would not be eligible for carriage of military or preference cargo, thus reducing the Government's peacetime sealift capacity and competitive base and increasing its cost. Additionally, existing U.S.-flag and Government-owned foreign-built vessels would be ineligible to carry military or preference cargo after 1992; thus, further reducing the Government's competitive base and increasing its costs.

Since the early 1980's, the Department of Defense has invested more than $5 billion to bolster our sealift capability. These were stopgap measures designed to meet the warfighting shortfall while permitting the industry to recover from the worst shipbuilding recession in shipping in 50 years. Regrettably, the maritime industry recession continues; and, while we believe new measures are required, we do not believe the high cost of H.R. 4662 to be the answer in this era of fiscal austerity.

Mr. Chairman, the U.S. Navy is in partnership with the U.S. maritime industry. We agree the industry is suffering and share with you the desire to reverse this decline. We stand ready to work with the Congress, the maritime industry, the shipbuilding industry, and any other entity toward revitalization and maintenance of a healthy shipbuilding and repair base. But we do not believe this bill is the proper vehicle.

Thank you, Mr. Chairman. I stand ready to answer any questions you or other Members of the Committee may have.

[The prepared statement of Admiral Piotti can be found at end of hearing.]

Mr. JONES. Thank you, Admiral, very much.

How large a shipyard base will Navy construction support over the next ten years?

Admiral PIOTTI. Mr. Chairman, in the current five-year shipbuilding program from 1988 to 1992, the program contains 107 ships. These ships will be built in 17 private yards. Other Navy work supports 57 additional yards. This base is adequate and now represents 95 percent of the total U.S. construction and repair yard base.

Mr. JONES. All right, sir.

Please respond to the allegation that the Navy is not concerned about the status of shipyards. How many more shipyards can we afford to lose before we have a crisis on our hands?

Admiral PIOTTI. Contrary to the statement, Mr. Chairman, the Navy is very concerned about the status of private shipyards. All new construction work is accomplished in private yards, and more than 30 percent of the overhaul and repair work on combatants is completed in private-sector shipyards. In addition, all of the Military Sealift Command work is completed in private yards, as is all of the work done for the Maritime Administration—whether that be for the National Defense Reserve Fleet or the Ready Reserve Fleet.

The Navy has a goal of 30 percent overhaul and repair work on combatant ships to be completed in private yards. And that was exceeded last year. The number was 36 percent. The amount of work going into the private sector is 81 percent of the dollar value of all Navy shipbuilding and repair, and modification work. This averages over $12 billion per year on the construction side, and over $4 billion per year on the repair and modernization side. So, as you can see, the Navy is the largest factor in the health and vitality of the U.S. shipbuilding and repair base.

Mr. JONES. All right, sir.

How do you feel a procure-and-charter program would affect our sealift capacity?

Admiral PIOTTI. There's no question, Mr. Chairman, that a procure-and-charter program would add to the inventory of the sealift types of ships. Whether those ships would be economically viable and whether they would have all of the features that we would want to see in them is a matter yet to be determined.

The question really becomes one of cost. Is it the right program? These are speculative ships built for no specific use as we see it today, unlike a build-and-charter program where there is a long-term requirement for a specific ship which would include specific military features, or for which the military would then establish a program to add, on a stand-alone basis, military features. This program would build a certain number of ships per year, without necessarily any up-front requirement for the numbers or types of ships being built.

Mr. JONES. All right, sir.

Admiral, if you will, respond to the argument that we will not fight another World War II, and that a large shipbuilding capability is unnecessasry.

Admiral PIOTTI. The question really concerns if a future war's duration will be as long as that of World War II. There is one group who would argue that all wars are going to be short; and, therefore, the existing shipbuilding base is adequate since you wouldn't be accorded the opportunity to build ships during that conflict. In other words, it would be a come-as-you-are event. There are others who don't believe that and say you only have to witness the Persian Gulf War and others; thus, a shipbuilding base would be necessary to construct replacement tonnage, or to add to the existing tonnage.

Mr. JONES. Admiral, does the Navy need militarily-useful tankers, or is a sufficient number of commercially-operated tankers available to meet our Nation's sealift requirements?

Admiral PIOTTI. As I indicated in my statement, Mr. Chairman, we are short in the 1992 timeframe 35 handy-size tankers. Industry, today, is building 60-to-80-thousand-deadweight-ton tankers, where our requirements are for 35-to-45-thousand-deadweight-ton tankers.

Mr. JONES. Finally, Admiral, of course, I'm recognizing the fact that you have on your uniform, but if you can comment, when do you expect the Administration, and particularly DOD, to respond to the Bennett Commission's recommendations?

Admiral PIOTTI. Mr. Chairman, the Navy has submitted its comments on the Commission's reports, both findings and recommendations, to the Department of Defense. The Department of Defense is at present gathering comments from other DOD segments, the other services, and will submit composite comments to Lieutenant General Powell of the National Security Council who is coordinating the input from all Government agencies.

Mr. JONES. Thank you.

Mrs. Bentley, any questions?

Mrs. BENTLEY. Thank you, Mr. Chairman.

Admiral Piotti, you just said a few minutes ago that you need the 35-to-45-thousand-ton tankers, and the industry is building 60 to 80. Why don't you put out an RFP for 35 to 40's?

Admiral PIOTTI. That's a wartime requirement, Mrs. Bentley. In the day-to-day peacetime requirement, our first requirement would be a replacement for the sealift tankers. Their end of service life will occur in 1995, and a construction program will not be required to commence until 1992. We are presently engaged in developing a plan of action and milestones which would achieve that end. Those are the first tankers that the Military Sealift Command has need for on a peacetime basis.

Mrs. BENTLEY. The 35 to 40's?

Admiral PIOTTI. Yes.

Mrs. BENTLEY. Are there any in the reserve fleet at all?

Admiral PIOTTI. Yes, very few. There are only nine tankers in the reserve fleet.

Mrs. BENTLEY. Of this size, in the 35 to 40?

Admiral PIOTTI. Yes.

Mrs. BENTLEY. In good condition, bad condition, ancient?

Admiral PIOTTI. Their age is 20 plus years old, but they're in good condition.

Mrs. BENTLEY. If, God forbid, a national emergency arose today, or there was a prolonged Third World conflict; I mean, for instance, the Persian Gulf, would MSC have a requirement for a larger number of vessels than what it has today?

Admiral PIOTTI. The aggregate inventory of vessels we would need to fulfill our mission would be larger than exists either in the Government-controlled fleet, or what's available in the U.S. merchant fleet, or what we could draw from our NATO allies, or from the "Effective U.S. Controlled Fleet."

And as I indicated, we are currently revising what that number would be, but in the past, as I indicated, it's a shortfall of half a million deadweight tons dry cargo, and 35 handy-size tankers.

Mrs. BENTLEY. So, if we're short, don't you think it's essential that for our national security that we have the capability to build and repair ships, or that we should be doing some of this new construction now in order to have these vessels ready?

Admiral PIOTTI. We could build them and place them in the reserve fleet but that is very costly. There is an existing overtonnaging on the world market today that's cheaper than building new ships. If you were to build ships for charter, you would be building a commodity that is not commercially viable.

Mrs. BENTLEY. Back in the 1950's we had a mariner program, which was essentially a build-and-charter, build-and-buy program, build-and-charter. It worked very well. And then we really had an abundance of ships. I mean we had all of those Liberties and Victories, still rather fresh from World War II, but we went ahead and did this because: (A) they were more modern, and (B) we wanted to help the shipbuilding industry.

Don't you think that somewhere between the knowledge of you, your people, anybody else in the Navy, and the industry that we could work out a mutual need program that could be beneficial to both sides, and help all of the maritime segments together?

Admiral PIOTTI. I believe we can. And I believe we should do it; but, as you know, this industry is divisive, and there has been tendency not to allow one segment of the industry to get ahead unless the industry as a whole moves forward together. I think that's—

Mrs. BENTLEY. Well, on something like that, why shouldn't all segments be brought in together, so they would benefit together?

Admiral PIOTTI. I think they should.

Mrs. BENTLEY. I can see that as one where they would all benefit.

Admiral PIOTTI. I agree the Navy has used build-and-charter programs in the past as a means of procuring new ships in several areas. The T-5 tankers and the MPS ships are recent examples of build-and-charter programs, or leverage lease programs the Navy has entered into.

Mrs. BENTLEY. What have you found in the availability of skilled crews to sail on the ships that you currently have, and in your projections down the road, that if we build up with these extra ships that are out in reserve fleet, and we need them, how available are skilled people going to be to run them?

Admiral PIOTTI. As we've indicated earlier in testimony we have an initial shortfall of about 6,000 and a sustaining shortfall of

about 8,000 trained mariners, that's licensed and unlicensed, to meet the requirements of sailing the ships that exist today plus the ships in the Ready Reserve Fleet. Of course, this doesn't account for national economic shipping requirements and their call for people.

Mrs. BENTLEY. Can you provide to the Committee any insight as to the projected shortfall in sealift capability if the U.S. were to engage in a significant, prolonged conflict in Europe or the Persian Gulf? Right now, what kind of sealift shortfall do we have?

Admiral PIOTTI. As far as the Persian Gulf is concerned, there are sufficient sealift assets to sustain the conflict in that theatre. If you go to a scenario where you're fighting a world war on three or more fronts, we would have a shortfall. And that shortfall is, as I pointed out, with the understanding that our allies, since it would be a global conflict, would come forward with the commitment they have previously made.

Mrs. BENTLEY. But even they're limited in the numbers of ships that they have available, you said earlier, I think?

Admiral PIOTTI. Yes. The decline in militarily-capable ships worldwide is no different than the shortfall we're facing here in the United States. As a matter of fact, it's a mirror image.

Mrs. BENTLEY. Do you know, offhand, how many ships the Soviet merchant marine has today and the Soviet Navy has today compared to ours?

Admiral PIOTTI. No. I can get that for you.

Mrs. BENTLEY. Okay.

Would you get those figures? I'd like to see them compare the Soviet and the East Bloc nations vis-a-vis the numbers that the U.S. and the NATO countries have together that would be available.

Admiral PIOTTI. Yes.

(Information can be found at the end of the hearing, "Comparison of the Commercial Merchant Fleets of NATO Countries to Warsaw Pact Countries".)

Mrs. BENTLEY. How do you feel about carrying preference cargo after 1992 exclusively on American-built ships?

Admiral PIOTTI. As you're aware, there are several U.S. liner and bulk operators who have foreign-built reflagged U.S. ships. Additionally, the U.S. Navy has bought or leveraged leased several additional foreign-built ships which it has in its fleet, four of the MPS ships, the fast sealift ships, and ships that are in the Ready Reserve Force. So, we have probably well over a hundred ships that would be precluded from carrying preference or military, or exercise cargo after 1992.

From a cost standpoint, we see a reduction of the competitive base in the loss of these foreign-built vessels. That portends, at least, a doubling of the cost of the carrigage of Government or military cargo. On an annualized basis that could range anywhere from two to four billion dollars. So that's the price of such a program.

Mrs. BENTLEY. All right.

Would you support a move to set aside all of the tax costs that an American operator or an American company has to include

when it's making a bid, let's say to MSC, versus that of a foreign operator?

Admiral PIOTTI. The tax costs are a cost to the operator, whether we discount them——

Mrs. BENTLEY. I know, but we don't include those in, and if the Federal Government says, okay, we know those are there, but the foreigners aren't paying those taxes in here, and, therefore, we want to put you on a level playing field?

Admiral PIOTTI. Well, I think the playing field ought to be level when we compare costs. And any cost analysis even if it is a foreign entity building ships, ought to compare total costs and benefits; that way we compare apples and apples, and not apples and oranges.

Mrs. BENTLEY. Okay.

Thank you, Mr. Chairman.

Mr. JONES. Mr. Pickett.

Mr. PICKETT. Admiral, is it your view that a shipbuilding capability is essential to the national defense of this Country?

Admiral PIOTTI. It is.

Mr. PICKETT. And you mentioned a figure a moment ago of two to four billion dollars if the military were required to have all of its cargo carried in American bottoms. Did I understand that correctly?

Admiral PIOTTI. Let me restate it. What I said was, if all cargo was required to be carried in U.S.-built, U.S.-flag ships, all military and Government cargo today is carried in U.S.-flag ships, although some of them are reflagged foreign-built ships.

Mr. PICKETT. All right.

You mentioned that since the early 1980's some $5 billion had been spent to establish and maintain the military sealift?

Admiral PIOTTI. Yes, that's correct.

Mr. PICKETT. And this figure approximates pretty closely the $800 million to a billion dollars annually that's being talked about by the Commission as the amount that's required to maintain a viable, or at least the amount required to be able to build the 10 to 12 ships a year?

Admiral PIOTTI. About a billion dollars a year for 10 years, yes.

Mr. PICKETT. Well, does this represent then a shift in resources from a merchant marine into the military?

Admiral PIOTTI. No, I wouldn't say that, because we would still continue to go forward with programs which are dedicated to sealift. Not all of those are dedicated to shipbuilding. Some are dedicated to ancillary programs which make use of what is commercially viable, but in its present form, not militarily-useful. For example, such things as seasheds and flatracks. Our tanks don't fit into containers; and, therefore, we have had to develop modular systems to fit existing cell guides to accommodate outsized equipment such as tanks.

We also developed systems to make use of common point-to-point tankers. We have developed modular systems which we can put on those tankers to make them underway replenishment oilers. And we have done the same thing for container ships where we can put modular systems on board to make them underway-replenishment capable. We have also developed offshore cargo handling facilities-

elevated causeways, self-contained lighterage, etc., such as that carried on our maritime prepositioning ships. We have also developed offshore petroleum discharge facilities. These all have to do with our capability to get the commodity needed by the fighting forces to the theatre in which they are needed. So, they're aggregated into sealift. These are the types of things we have procured with that $5.5 billion.

Mr. PICKETT. How much of that $5.5 billion was for the construction of the vessels?

Admiral PIOTTI. The 5 T-5 tankers and the 13 maritime prepositioning ships were built or converted as a result of a Navy long-term leasing arrangement, while the eight fast sealift ships were directly purchased and converted by the Navy.

Mr. PICKETT. Mrs. Bentley raised the issue about manning the vessels. Are we running the risk of not having crews that can actually man—an adquate number of crewmen, both licensed and unlicensed, to operate vessels in time of an emergency?

Admiral PIOTTI. Yes, we are.

Mr. PICKETT. And is this something that would be taken care of if an adequate merchant marine capability were maintained on behalf of the Nation?

Admiral PIOTTI. If there was a capability to satisfy all of the military needs without having to have the need for a reserve fleet, which I don't think we will ever achieve, because there are certain ships that have no commercial viability, that DOD must maintain. It really doesn't make sense to take these less desirable ships that we have in the national reserve fleets and put them into active commercial carriage.

There are ships in the RRF—the auxiliary crane ships, hospital ships, intermediate maintenance facility ships, and other ships that have been phased out commercially—lash vessels, Seatrain vessels, and the like, first and second generation Ro/Ros—that we must maintain to satisfy the military requirements, but which don't have any commercial viability. Those should be kept at a minimum, but if we had a viable merchant marine of, say, some five to six hundered ships plying their trade daily, we could satisfy most of our mariner requirements. Maybe not all, but most of them.

Mr. PICKETT. Thank you.

Thank you, Mr. Chairman.

Mr. JONES. The Chair would like to announce that, in view of previous commitments by many Members of this Committee, I will now declare a recess to 2:00 o'clock.

The Committee stands in recess.

[Whereupon, at 12:40 p.m., the Committee recessed, to reconvene at 2:00 p.m. the same day.]

AFTERNOON SESSION

Mr. JONES. The Committee will come to order, please.

Our first witness this afternoon is Admiral Petersen, Director of the Office of Marine Operations, National Ocean Service.

You are recognized, sir.

STATEMENT OF REAR ADM. SIGMUND R. PETERSEN, NOAA CORPS, DIRECTOR, OFFICE OF MARINE OPERATIONS, NATIONAL OCEAN SERVICE, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Admiral PETERSEN. Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear before you to describe the National Oceanic and Atmospheric Administration's (NOAA) fleet and its operation.

Today's NOAA fleet is composed of 23 vessels which provide support to NOAA's oceanographic and atmospheric research programs, marine environmental assessment programs, hydrographic and bathymetric mapping programs, and living marine resource programs. The present fleet was formed by the creation of NOAA in the early 1970's through the combination of the fleets of the Coast and Geodetic Survey and the Bureau of Commercial Fisheries, now the National Ocean Service and the National Marine Fisheries Service, respectively. The fleet is centrally managed by the Office of Marine Operations of NOAA's National Ocean Service.

The NOAA fleet is a significant portion of the Nation's dedicated ocean scientific and charting capability. NOAA vessels account for approximately one-half the total Federal ship time for hydrography and charting, one-half the total ship time for marine environmental quality assessment, almost all the ship time for global climate studies, and all the ship time for fisheries research and assessments. NOAA vessels range in size from the 45-year-old, 86-foot *Murre II* to the 24-year-old, 303-foot *Oceanographer* which performs deep ocean research. Mr. Chairman, I have attached to my statement a table of vessel characteristics, including present homeports and vessel launch dates. NOAA vessels are operated by NOAA commissioned officers and civilian officers and crews trained and experienced in the scientific and engineering skills necessary to perform NOAA's missions at sea.

Vessel maintenance is the responsibility of small engineering staffs located at the Atlantic Marine Center in Norfolk, Virginia, and the Pacific Marine Center in Seattle, Washington. These staffs develop detailed maintenance and repair specifications and monitor contracts for the vessels located on their respective coasts. Repair and maintenance, including installation of complex scientific equipment such as hull-mounted multibeam transducer arrays, are performed under contract by small to medium shipyards on both coasts. In recent years, $8 to $10 million have been expended annually on repair contracts for the 23 vessels. The Nation's shipyards have typically performed excellent work on NOAA ships.

One of my major concerns as Director of the Office of Marine Operations is the age of the fleet and our ability to provide quality ship support in the future. This issue was considered during the annual budget formulation process, and appropriate amounts were included in the President's budget request to maintain the NOAA fleet. NOAA does not require additional authorization to maintain the NOAA fleet. Therefore, we oppose enactment of H.R. 4704 as unnecessary.

This concludes my statement. I will be pleased to respond to any questions you may have.

[The table attached to the statement of Admiral Petersen can be found at the end of the hearing.]

Mr. JONES. Admiral, I have a few questions I'd like to run through.

Admiral PETERSEN. Yes, sir.

Mr. JONES. Does NOAA agree with the recent study of the fleet done by the Advanced Technology, Incorporated?

Admiral PETERSEN. The AD-TECH study that was done recently proposed that many of our ships are in very good condition compared to other vessels of that size, and compared to vessels of that age.

I think, as we look to the future, we certainly will have to look further at total major system replacement that may be necessary to extend the years of the fleet to support NOAA programs.

Mr. JONES. What plans do you have to implement the service life extension and fleet replacement programs as recommended by AD-TECH?

Admiral PETERSEN. We are reviewing that at the present time. And we certainly are taking into consideration the requirements of the programs, and we will be looking at the new possible replacements as we pursue the budget process in future years.

We understand that we do have to, as I pointed out, look at major system replacement. We want to take advantage of advanced technology for instrumentation and so we will be assessing that in future years.

Mr. JONES. What are your views of the adequacy of the scientific equipment on NOAA vessels?

Admiral PETERSEN. The instrumentation aboard NOAA vessels is extremely important for us. We feel at the present time that the instrumentation is adequate to meet the NOAA mission needs. However, we want to take advantage of technology in future years which would enhance the production of our ships, such things as looking into data acquisition systems for global research, and remote sensing systems such as Doppler Current Profilers.

Mr. JONES. What new personnel and other requirements would NOAA need to implement the provisions of H.R. 4704?

Admiral PETERSEN. I'm sorry, sir, I didn't understand that question.

Mr. JONES. What new personnel and other requirements would NOAA need to implement the provisions of H.R. 4704?

Admiral PETERSEN. We would have to add personnel certainly for any expansion of the fleet. We would have to look at the possibility of expanding the complements on the ships and also additional personnel for maintenance.

Mr. JONES. All right, sir.

Now, if NOAA is opposed to the expansion of the fleet called for in H.R. 4704, how else does it intend to carry out its new requirements for mapping and surveying the Exclusive Economic Zone and offshore territories; for collecting vital global climate and fisheries data; and for inspecting hazards to navigation in key U.S. ports? How do you propose to handle that without this bill?

Admiral PETERSEN. Well, as I stated before, the AD-TECH study does point out that NOAA has a fleet that is maintained well, as well as most other ships of its age. We would have to look further

at additional major system replacements, and we would have to look at extending the fleet into the future years by adding instrumentation, by looking at improvements in certain vessels.

The AD-TECH study does show that there are some vessels that are beyond the point of economical maintenance and repair, and those would have to be replaced. We would have to assess that at that time.

Mr. JONES. Admiral, why does NOAA oppose the Buy American requirement in my bill?

Admiral PETERSEN. Why does NOAA—pardon me?

Mr. JONES. Why do you oppose the Buy American requirement, Bob Hope, you know, Buy America?

Admiral PETERSEN. Well, I don't think we oppose that, sir. We are not in a position right now of adding any ships, but if we were to add ships in the future, I would not think that we would oppose that.[1]

Mr. JONES. In other words, you don't see any problems for the fleet in complying with this (Buy American) requirement?

Admiral PETERSEN. Well, our position is that at the present time, there is not a requirement. However, we are continually working with NOAA programs to determine their requirements, and their needs, so that we can evaluate what size vessel we need, and what the future requirements are.

Mr. JONES. Thank you, Admiral.

Do you have any questions of the Admiral, Mr. Hubbard?

Mr. HUBBARD. Do we have time, Mr. Chairman?

Mr. JONES. I don't think so.

Mr. HUBBARD. Can we come back?

Mr. JONES. Yes.

Mr. HUBBARD. Please.

Mr. JONES. Admiral, we'll be back in a few minutes.

[Recess.]

Mr. JONES. The Committee will come to order, please.

When we recessed, Admiral Petersen was concluding his testimony, and had responded to some questions, and the Gentleman is recognized. The Chair recognizes the Gentleman from Kentucky.

Mr. HUBBARD. Thank you, Mr. Chairman.

Each of the Members of our Merchant Marine Subcommittee has received a letter from the National Marine Engineers' Beneficial Association, dated June 10, 1988. The Chairman has received one, each of us, I believe, has received a letter dated June 13—actually, correcting myself, Mr. Chairman, I think each of the Committee Members has received the letter of June 13 and I would like to read, for the record before I ask questions of our witness, Admiral Petersen——

Mr. JONES. The Gentleman may proceed.

Mr. HUBBARD [continuing]. Just a portion of the letter to our Chairman:

The National Marine Engineers' Beneficial Association, representing some 50,000 licensed and unlicensed American merchant mariners, has carefully reviewed House bill H.R. 4704. This bill would authorize the National Oceanic and Atmospheric Ad-

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[1] See letter dated August 23, 1988, from Rear Admiral Sigmund R. Petersen regarding this matter, at end of hearing.

ministration to modernize and expand its fleet of ocean research vessels. By way of background, it is important to know that we have many years' experience with NOAA. Our Licensed Division has represented engineers on board its vessels for over 25 years, and our Unlicensed Division has represented other crew members on NOAA vessels even longer. Our organization is highly familiar with the operation and management of this fleet.

There is no question that the existing NOAA fleet is aging rapidly. We fully concur that if the mission of NOAA is to continue to be performed, and we believe that it must, then the equipment to perform this mission will require significant modernization and replacements. It should be noted that such modernization and replacements will be a significant boost to America's shipbuilding industry; Navy shipbuilding has leveled off, and commercial work on large vessel construction has come to a complete halt.

There is, however, another issue that should be raised at this point in connection with these NOAA vessels and their mission concerning their operation.

Quoting again from the letter from Mr. C.E. DeFries, President of MEBA in Washington, DC, he says:

Our question is: "Will they be operated in the most efficient and economical manner by NOAA, or should we at least consider whether their operation might better be the responsibility of some other agency—not in terms of the scientific mission of NOAA but in terms of the actual operation of the vessels?"

Quoting again from Mr. DeFries letter of June 10 to our Chairman, the Honorable Walter B. Jones:

In 1978, the Comptroller General reported that the operation and management of oceanographic ships was "fragmented and decentralized," contributing to the "inefficient and uneconomical" use of the fleet.

The report, a copy of which was attached to the letter to Mr. Jones,

* * * singled out NOAA for its ineffective management. Unfortunately, what was true then is still true today.

That is quoting, again I say, from a letter from Mr. C.E. DeFries, the President of the National Marine Engineers' Beneficial Association in Washington.

I would like to ask our Committee, Mr. Chairman, to consider authorizing a comprehensive study of the National Oceanic and Atmospheric Administration's shipboard operations and management. Such a study is timely and in the overall United States' interest. House bill 4704 authorizes, of course, NOAA to modernize and expand its fleet of ocean research vessels. The 1978 GAO study should be updated. The operation of the NOAA fleet should be transferred to the Military Sealift Command, which is a part of the Navy. A study of that alternative should be authorized as part of our legislation, or our Committee could ask the Military Sealift Command to submit a management proposal which could then be considered.

Admiral Petersen, are you familiar with the 1978 Comptroller General Report that raised some concerns about your agency's management of its fleet?

Admiral PETERSEN. Yes, sir, in vague terms.

This was a number of years ago, and I believe that the problems identified were responded to, and that the fleet has been operated well in the succeeding years. I don't know anything about this letter. This is the first time that I've heard about the letter.

The only communication or discussion we're having with MEBA right at the moment is some discussion regarding labor agreements, and Chief Engineers being part of those agreements, or

being part of management. But other than that, I would have to defer and come back to you with any answer to that.

Mr. HUBBARD. I would appreciate that.

Mr. DeFries, President of MEBA, says, again I repeat from the letter he sent to me on June the 13th: "In 1978, the Comptroller General reported that the operation and management of oceanographic ships was 'fragmented and decentralized,' contributing to the 'inefficient and uneconomical' use of the fleet." From MEBA's point of view, "what was true then is still true today."

My second and last question, you have indicated that fleet replacement, given the current budget restraints, would be unduly costly to support. It has been brought to our attention by the Marine Engineers' Beneficial Association that NOAA has a unique management structure that has been criticized by the GAO. Would your mission be more economically accomplished if your agency were not burdened by also managing its fleet?

Admiral PETERSEN. Sir, I believe that the management of the fleet is an efficient operation right at the moment. We have some—we have had a study done, the AD–TECH study. And it shows certain deficiencies. We are evaluating that study, and evaluating future program needs for NOAA. My office, the Office of Marine Operations, is a centralized operation with Marine Centers on both coasts that run the day-to-day operations, but I believe that there is an efficient operation going on right now, sir.

Mr. HUBBARD. Thank you, Admiral Petersen.

And lastly, Mr. Chairman, I would again urge our Committee to consider authorizing a comprehensive study of NOAA's shipboard operations and management, believing such a study is timely, needed, and would be in the overall economic interest of our Country.

Mr. JONES. The Chair is disposed to assure the Gentleman from Kentucky that the letter will be referred to our staff, the Committee staff, who in turn will negotiate with MEBA to see what, if anything, can be worked out in the way of a compromise.

Mr. HUBBARD. Thank you, Mr. Chairman.

Mr. JONES. Admiral, again, thank you very much for your presence here this afternoon. I'm sorry about the interruptions, but thank you very much.

Admiral PETERSEN. Thank you, sir.

Mr. JONES. There's a vote on the House Floor at the moment; and, of course, I have a little more than passing interest because it involves a slight pay raise, so I hope you'll understand. The Committee is in recess.

[Recess.]

Mr. JONES. The Committee will come to order, please.

Our next witness is Captain Gilbert Kraine. Captain Kraine, would it be agreeable to you to include your entire statement in the record, and you confine your remarks to oral testimony?

Captain KRAINE. I'm sorry?

Mr. JONES. Would it be agreeable to insert your testimony in the record, and you confine your remarks to testimony on the NOAA bill?

Captain KRAINE. Yes, sir.

Mr. JONES. Good. Without objection, so ordered.

Your prepared statement will be inserted following the oral presentations.

The gentleman will proceed.

STATEMENT OF CAPT. GILBERT L. KRAINE, USCG (RET.), SPECIAL PROJECTS MANAGER, ADVANCED TECHNOLOGY, INC.

Captain KRAINE. Mr. Chairman and Members of the Committee, I'm Captain Gilbert L. Kraine, U.S. Coast Guard, retired, and currently employed by Advanced Technology, Incorporated.

In May, 1987, Advanced Technology was awarded a contract by the National Ocean Service of the National Oceanic and Atmospheric Administration to assess the condition of the 23 ships of the NOAA fleet and develop an Upgrade Plan. I was the ATI program manager for the work due to my background and prior experience.

I graduated from the U.S. Coast Guard Academy in 1950 with a Bachelor of Science in Engineering. Subsequently, I received a Master's degree in Naval Architecture and Marine Engineering—did you want me—Mr. Chairman, did you want me to go through this part of my statement?

Mr. JONES. Yes, that would be acceptable. We'd like to know who you are and where you're coming from and so forth. So that would be fine.

Captain KRAINE. Thank you.

Subsequently, I received a Master's degree in Naval Architecture and Marine Engineering and a Naval Engineer's degree from the Massachusetts Institute of Technology in 1958. I also hold an MBA in Finance from the Old Dominion University. During my Coast Guard career, I held a variety of positions directly responsible for the design, construction, alteration, maintenance, and repair of Coast Guard cutters and commercial vessels. Since retiring from the Coast Guard, I have held management positions at several shipyards before joining Advanced Technology, Incorporated.

Currently, in addition to the work for NOAA, I have been engaged in several projects for the Naval Sea Systems Command involving the design and construction of various ships.

In assessing the NOAA fleet and developing the upgrade plan, we used the following approach, procedures, and methods. I headed up a team of engineers with marine, structural, electrical, and electronic engineering backgrounds as applied to ship design, construction, operation, maintenance, and repair. We visited the National Ocean Service headquarters, the Atlantic and Pacific Marine Centers, and the ships of the NOAA fleet. We interviewed the personnel involved in vessel maintenance and operations, and the key shipboard personnel including the Commanding Officer, Executive Officer, Chief and Assistant Engineers, electronic technicians, boatswains, stewards, and scientific personnel. We inspected the records for each ship and extracted pertinent data regarding past problems and casualties, repairs, actual costs, and planned future maintenance activities.

We also visited and physically inspected every ship with the exception of the *MURRE II*. We entered every accessible space and inspected all major systems and items of machinery and equipment. The inspection was performed at dockside. Generally, we

were not able to observe the ships underway; however, we did ride several of the ships.

Based upon our visits, interviews, inspections, and file searches, we developed a detailed assessment of the condition of each ship. The assessment was then analyzed to identify the work which would be required to extend the life of the ship, improve the ability of the ship to perform its mission, and increase the ship's productivity or efficiency. A proposed repair or replacement plan was developed, and the cost of the work was estimated. Equipment repair was the preferred approach except when replacement was required by advanced deterioration, the mission criticality of the item, the availability of replacement parts, or when overhaul costs exceeded replacement costs.

In the analysis phase, we developed a complete listing of the work required to extend the life of each ship or improve its capability to perform its mission. This list became the description of the upgrade project for that ship. The various upgrade projects for the ships were then scheduled for performance over the period from Fiscal Year 1990 through 1999.

There are some caveats on the use of this study. First, we were not tasked to review the scientific instrumentation in use aboard the ships. We did include laboratories and scientific spaces but did not address the need for upgrade of the scientific equipment in the spaces except for navigation and communications equipment used for normal ship operations.

Second, we were directed to assume that the current operational profile for each ship would continue in the future. We did not address the operational requirements for the ship, nor the possible need for additional ships to meet future missions. Finally, all dollar estimates were based upon 1987 dollars.

We evaluated the NOAA fleet as being in better condition than commercial vessels of the same age, especially considering the demanding operational schedules and the limited maintenance funding. There are many hardworking and dedicated people in NOAA, both ashore and aboard the ships, who have performed admirably in the maintenance and repair of the ships over many years. NOAA's decentralized approach to maintenance is highly dependent on the competence of the individuals. However, there are some problem areas and problem ships.

The basic problem facing the NOAA fleet is block obsolescence. Twenty of the 23 ships were built in the 1960's and only one since then. Ships have a normal life expectancy of 20 to 25 years. By that age, the obsolescence of some of the installed equipment and machinery, deterioration of systems and structures, and technological advances generally will require major maintenance efforts to continue the satisfactory operation of a ship. The bulk of the NOAA fleet is at that stage now. NOAA's diligent maintenance programs have helped to keep the vessels in a condition which makes the majority of them excellent candidates for service life extension programs. It is, therefore, our recommendation that such a program be undertaken immediately. Failure to initiate an upgrade program now may result in replacement being the only option left open to NOAA in the future.

In assessing the NOAA fleet, we did identify four ships which we recommended for replacement rather than a full service life extension, upgrade program. These ships are the *Albatross IV, Townsend Cromwell, John N. Cobb,* and *Surveyor.*

A limited upgrade project was developed for each of these four ships to correct various immediate problems and keep them operational until they are replaced. In addition, a design and construction plan was included in the Upgrade Plan for the replacements for these four ships.

A proposed schedule of upgrade projects is included in the report. The projects are divided between major and minor efforts with one major upgrade scheduled each year, alternating between Marine Centers. One or more minor upgrades are also scheduled each year. The total cost of the program was estimated at $168 million over a 10-year period with $83 million for upgrades and $85 million for replacements.

The Upgrade Plan was based upon our best engineering judgment on the information provided to or obtained by us. Changes in and/or additions to the plan may be the result of NOAA's incorporation of other considerations.

That concludes the proportion of my prepared comments on NOAA, sir.

[The prepared statement of Captain Kraine can be found at end of hearing.]

Mr. JONES. Captain, thank you very much. I have one or two questions, if you don't mind.

What are the consequences for NOAA if it does not immediately begin to implement a fleet rehabilitation and upgrade program, or as you call it, a service life extension program?

Captain KRAINE. NOAA can expect an increasing rate of casualties and failures, failures to perform missions, as the fleet ages. The cost of overhaul and maintenance will go up over the years, if the fleet is not upgraded at this time. It will be a general deterioration and with the block obsolescence problem, it will fly across the fleet.

Mr. JONES. All right, sir.

Captain, why did you decide that only four of the existing NOAA ships need to be replaced?

Captain KRAINE. In reviewing the cost benefit of upgrading versus replacement, we found four ships that when they were upgraded, NOAA would either have a ship that still was not adequate for the operational purpose, or would continue to be a long-range problem for the operation of the fleet.

Those were the four that we selected for the replacement.

Mr. JONES. Can I assume that if money wasn't an object, that you would have recommended that more ships be replaced?

Captain KRAINE. Mr. Chairman, I have difficulty projecting myself when money is not an object. However, yes, there might have been additional ships that we would have considered if we felt completely unconstrained by budget.

One aspect, near the end of the 10-year upgrade cycle, we would recommend that it start planning for a replacement of the ships again into the future.

Mr. JONES. Is the schedule set forth in H.R. 4704 compatible with your recommended rehabilitation program?

Captain KRAINE. Yes. The schedule as set forth in the bill, I believe, is compatible with our schedule.

Mr. JONES. Captain, thank you very much for your appearance here this afternoon, and for your testimony.

Our next witness is Dr. Allan W. Cameron, Executive Director of the Commission on Merchant Marine and Defense.

I say, Dr. Cameron, perhaps you should have been up near the front of the witness list, because much of the testimony today has centered around the Commission's report. So with that, you take it from there.

Your prepared statement will be inserted following the oral presentations.

STATEMENT OF DR. ALLAN W. CAMERON, EXECUTIVE DIRECTOR, COMMISSION ON MERCHANT MARINE AND DEFENSE

Dr. CAMERON. Thank you very much, Mr. Chairman.

It's a pleasure for me to be here this afternoon, at the direction of the Chairman of the Commission and the Commissioners. The day is long and the hour is late, so I will abbreviate an already abbreviated statement in hopes that I can take your questions.

Mr. Chairman, I want to commend you and Congressman Davis for your efforts to identify, highlight, and address the problems facing the shipbuilding industry in the United States, as well as the situation of our maritime industries as a whole. Similarly, I want to commend the Shipbuilders Council of America for its effort to put together legislation that has already had the effect of stimulating this hearing and of generating considerable discussion.

The Commissioners have not had the opportunity to examine and discuss the bills being considered here today, one of which, H.R. 4704, falls outside their purview. At their May meeting, however, they did reaffirm their unanimous commitment to the integrated, comprehensive set of recommendations contained in their second report. They also restated their view that it would be counterproductive to address only one or some aspects of the problems facing our maritime industries and our national security, rather than dealing with the situation as a whole.

The procure-and-charter program recommended by the Commission is an integral part of their total program. It is not simply a program for commercial construction but, rather, is based first and foremost on the national need for merchant ships with a high degree of military utility and for an adequate shipyard mobilization base, both of which respond directly to the most critical defense needs.

It is a program with a great degree of synergy and a high payoff, because it addresses several crucial areas: first, the need for militarily-useful ships of types that are not likely to be generated by the commercial marketplace for use under the United States flag, particularly unit equipment-capable ships and product tankers; second, the need to construct commercial-type ships in United States yards, both for the mobilization base and to preserve the skills that enable building of ships in time of conflict; third, the

need for the preponderance of militarily-useful ships to be active in the commercial trades in order to support the manpower pool needed for time of mobilization or national emergency; and finally, the need to equip our operating merchant marine with modern, efficient ships in order to help reduce its costs and improve its competitive position in the international marketplace.

Priority would be given to ship types with high military utility yet with sufficient commercial viability to make them competitive in commercial service. For example, the Commission would not see the need to build, under the procure-and-charter program, ship types that can be obtained at favorable prices on the world market and that ship operators would obtain themselves, without any need for Government intervention, in a free marketplace, particularly if certain rules that impose disadvantages on foreign procurement are relaxed.

Building the ships according to the principles that I have just outlined is half the problem. The other part is ensuring that they are active in the commercial trades.

By definition, the ships would not be the most commercially viable and competitive types. If they were, operators would buy them without government intervention or assistance. It is clear, therefore, that the cost to the operator of obtaining the ship through charter must be less, by some amount, than the cost of the ship if the operator built it himself.

For that reason, the Commissioners recommended that the ships be available for charter under the United States flag by qualified and experienced operators, and that the charter process should endeavor to incorporate terms designed to assure commercial viability and to reduce operator capital costs, in order to improve the ability of the operator to compete for existing commercial cargo.

The difference between the cost to the Government to construct the ship and to sustain it in commercial service, therefore, and the amount of income that the Government would receive from the charter would be the price that the Government would pay for having a specific strategic sealift asset available. It would not be simply a subsidy, with all the negative connotations of that term, but the cost of a national security asset. That, it seems to the Commissioners, is a reasonable thing to expect the Government to pay.

Discussions that the Commission staff have had with a significant number of people in the industry reinforce the belief of the Commissioners that a program operated in the way that it was conceived, and as I have described it, could, in fact, work effectively.

I should also emphasize, Mr. Chairman, that the Commission's recommendations, insofar as they apply specifically to the shipyard industry, are not limited to the procure-and-charter program. The Commissioners also recommended several other measures, which are listed in my written statement and detailed in the Commission's second report.

The Commissioners have used the figure of about $1 billion a year for their procure-and-charter program, basing that on simple construction costs, estimated high, without any consideration of offsetting revenues.

The Commission has been challenged by private industry, Members of Congress, and the Administration to conduct the kind of

analysis that demonstrates that its proposals are cost effective. The Commissioners believe that questions of that sort are legitimate for any proposal. We are working to do the required analysis, and we hope that we will have the cooperation of all the interested and concerned parties, both in and out of Government, in providing information and technical assistance.

Mr. Chairman, I must emphasize what the Commissioners themselves have said. The Commission's recommendations were designed to be implemented as a whole, and its goals simply cannot be achieved if its recommendations are dealt with on a piecemeal basis with some implemented and others rejected. It is important that the Administration, Congress, ship operators, shipbuilders, suppliers, and labor set aside their differences and cooperate for the common good.

Instead of arguing about the division of an ever smaller pie, our maritime industries and interests should be working together to make the pie larger.

Thank you, Mr. Chairman.

[The prepared statement of Dr. Cameron can be found at end of hearing.]

Mr. JONES. Thank you. Dr. Cameron.

You mentioned just a moment ago, about the cooperation of the Administration, the Congress, and et cetera. Do you have any feeling when the Administration is going to react to the Commission report?

Dr. CAMERON. Some sense, sir. The Department of Defense has been preparing a coordinated reaction to the report, which is being accompanied by a draft national policy statement for consideration at the National Security Council level. It is our understanding that that package should be leaving the Department of Defense any day now. It may be like "the check is in the mail," but there is a sense that there is some progress, and we believe that there is a commitment at the National Security Council level to conduct the appropriate interagency process when the DOD input is received.

Mr. JONES. As you well know, Dr. Cameron, I'm one who applauds the Commission for the work that they did, and I'm very concerned that we don't throw the baby out with the dishwater, and sweep this Commission boat aside.

Already there is criticism this morning that the Commission has not told us exactly what the Nation needs in the way of numbers and types of shipyards. Would you care to comment on that statement here this morning?

Dr. CAMERON. Yes, sir, in the sense that I think what the Commission has told you thus far is that the number of shipyards that exists is barely adequate, or was at the time of the first report last Summer, to meet surge phase mobilization requirements. To meet construction requirements during a prolonged conflict, as those construction requirements were certified or provided to the Commission, the shipyard base was inadequate.

Unless the requirements for the number of ships that would have to be constructed have changed since that time, I would have to say to you that the shipyard base is inadequate to meet the overall requirements as they are defined.

Mr. JONES. Have you any numbers as to what we need as a minimum in shipbuilding?

Dr. CAMERON. I would say that the analysis should be on the basis of capability rather than the basis of number of yards. Trying to be specific about exactly that point is one of the things that we are engaged in. We're not at a point where we can provide you a specific number or defend that number. It is something that the staff and the Commissioners are working on, and I hope that we will be able to provide it by the time the Commission completes its work.

Mr. JONES. Dr. Cameron, I'm sure that you and the Commission and this Committee will meet many times in the near future. And I want to, again, commend you and the Commission for the work that you've done up to this point.

I don't believe I have any further questions, and thank you for your appearance here this afternoon.

Dr. CAMERON. Thank you very much, Mr. Chairman.

Mr. JONES. Our next witness is Mr. William P. Verdon, President of the United Shipowners of America.

Your prepared statement will be inserted following the oral presentations.

STATEMENT OF WILLIAM P. VERDON, PRESIDENT, UNITED SHIPOWNERS OF AMERICA

Mr. VERDON. Good afternoon.

Thank you, Mr. Chairman, and Members of the Subcommittee.

Mr. JONES. Mr. Corrado and Mr. Grill——

Mr. VERDON. Yes, Mr. Grill is to my right, and to my far right is Mr. Corrado.

Mr. JONES. I'm acquainted with both gentlemen very well.

You may proceed.

Mr. VERDON. Thank you.

Thank you for giving United Shipowners of America the opportunity to appear before you today to experss our views on H.R. 4662. We are a trade association representating over 95 percent of the U.S.-flag liner capacity.

And at the outset, so there's no mistake about it, I would like to state categorically that USA is opposed to H.R. 4662 in its entirety.

The goals outlined in the introductory remarks to the introduction of the bill are absolutely correct ones. The problem, as USA sees it, is that the bill introduced at the request of the Shipbuilders Council of America not only fails to live up to these goals but if enacted, will have the exact opposite effect. It will destroy the U.S.-flag liner industry and do nothing for the shipbuilding industry.

We want to make clear at the outset that our strong opposition to this bill is based on compelling and inescapable financial realities of the liner business; specifically, the need for U.S. carriers to acquire cost-competitive vessels.

A modern container ship or other liner vessel built in a U.S. yard costs approximately three times as much as the same vessel built in a foreign yard. And it takes three times as long to build. These differences will be enough to sink the fleet. A large, modern containership that would cost approximately $40 to $50 million

overseas would cost $80 to $100 million more built in the United States.

With regard to the procure-and-charter program, we find, after reading the bill as carefully as possible, that there is no program at all offered in this bill. First of all, there is no definitive money appropriated for implementation of the program. Indeed, as written now you would have a non-funded theoretical program. But the damage done by the rest of the bill would be real, not theoretical, and existing law concerning cargo preference and ODS would be irrevocably changed for the worse.

Not only is the funding vague, but so too is the program itself. What is the scope of the program? Is it one vessel or 12 vessels? What will be the type, size, and character of such vessels? Will they be a design that will cost $50 million per ship? Will they be primarily militarily-useful vessels with some commercial viability, or vice-versa? Until answers are forthcoming, the proposal put forward is so vague as to be meaningless. Before new programs are created, and funded with taxpayers dollars, there first should be an explicit, definable program with measureable parameters. We find none in H.R. 4662.

Section 1401(c) anticipates a lack of future funding since the program will not be based on entitlement, but rather will be subject to the vagaries of yearly appropriation battles. Not only don't we know what the first year, or any year, will cost or how much should be appropriated, but we don't know if there will even be a viable program at any time. Section 1401(c) contemplates unavailability of funds and provides that, if this happens, the program will be terminated and the vessels turned over to the National Defense Reserve Fleet.

Two glaring problems come about as a result of that methodology. First, rhetorically, what liner operator would want to charter a vessel from such a tenuous program and plan his operations around such a scheme? It is difficult to believe that any one would invest hundreds of millions of dollars in containers, chassis, terminal facilities, inland facilities, with the probability that in any given year the whole enterprise might collapse because his ships could be taken away and given to the NDRF due to budgetary constraints.

Second, since this bill contemplates linkage between foreign building and the procure-and-charter program, what happens if at the end of a year or two years, there is a death to the program? Once again, shipowners would be left in the absurd positions of not being able to build new vessels and expand through no fault of their own, since they would have been linked to a procure-and-charter program. Much undue criticism has been leveled at the shipowners for the decline of the merchant marine over the last decade. The fact is that our hands are tied and have been tied most of the time because of the inability to build. When there was a true cost parity CDS program there indeed was building. When there was a one-year window in the early 1980's, there was building. Indeed, 26 foreign-built U.S.-flag liner vessels were constructed under the one-year window, and they have been, and are today, the bulwark of the U.S.-flag international liner fleet.

Just think of where we would be today if Congress hadn't had the foresight in the early 1980's to allow us to do that. Twelve ECON Atlantic-class vessels that are making up Sea-Land's East Coast service would not be in existence today. Nine brand new diesel-class vessels would not be in existence today. U.S.-flag service to Brazil and Argentina would not exist today, since Crowley runs that service with three foreign-built U.S.-flag ships built under the window. And finally, a new entrant called Top Gallant would not be in existence today, because they're running two ships that were built in Europe under the same program.

We believe that there are three basic goals underlying the procure-and-charter program put forward in the bill, and each in and of itself is salutary. The difficulty, as we see it, is that these three worthwhile goals ought to be met head on and resolved directly, instead of going through the charade of a procure-and-charter program. Such a program is laboriously attempting to put a square peg into a round hole, and regardless of the good intentions of all concerned, as well as the admittedly worthwhile goals, it just won't work.

We suggest, instead of a procure-and-charter program, assuming the validity of the proposition that certain militarily-useful auxiliary vessels are needed, then the Navy should come forward, testify to the need, and build them within their own budget. It is rather surprising that the shipbuilders keep telling us of the dire need for this breed of vessel, but the ones with the expertise, the U.S. Navy, are silent. Direct building will satisfy goal number one, and that is to have more ships in the Navy auxiliary fleet. There just is no need for a zig-zag of a procure-and-charter program.

By such direct building, these militarily-needed auxiliary vessels would, of course, be built in U.S. shipyards, and thus the second goal would be met, and that would be some work for the remaining shipyards that need the work. The cargo preference portions of H.R. 4662 are the most disturbing to us. The purpose and policy of the Act of 1936, as amended, was and is to create, expand, and strengthen the U.S.-flag merchant marine. Ironically, this bill would have the exact opposite effect.

Section 3 of H.R. 4662 seeks to radically change existing law and provides that foreign-built vessels—even though they fly the U.S. flag, pay U.S. taxes, employ U.S. citizen seamen at as much as four times the cost of foreign seamen, and comply with the stricter code of U.S. Coast Guard rules and regulations—will never be able to carry Government-impelled cargo after October, 1992. Such a radical and destructive departure from existing law would drive liner operators away from the U.S. flag and accomplish the exact opposite of what the 1936 Act set out to do, encourage the growth of U.S.-flag vessels.

The bill would not only turn the world upside down for new foreign-built vessels, but it would also, ex post facto, take away from existing foreign-built U.S.-flag vessels the right to carry Government-impelled cargo. This deprivation of existing rights would cause economic chaos to the existing U.S.-flag liner fleet which is now made up of approximately 54 foreign-built vessels, out of 11 liner vessels plying the international waters.

These companies have relied on the existing laws and have built their companies and spent billions of dollars on the strength and integrity of those laws. For Congress now to do an about face would destroy, not strengthen, the U.S.-flag fleet, and would leave the operators with one of two options. First, since they would be so economically noncompetitive, they would go out of business and close up shop, or second, they could seek to reflag their vessels and operate under foreign flag. May we suggest that, if you should seriously consider the proposal before you today, that it would be only fair that shipowners be authorized at the same time to change to foreign flag, when the very incentive to flag U.S. in the first place is taken away.

In addition to U.S.-flag foreign-built vessels being precluded from preference cargo carriage after 1992, this bill also precludes 20-year-old U.S.-built and U.S.-flag vessels. In 1992, there will be 42 existing U.S.-flag liner vessels 20 or more years old. These vessels are quite capable of carrying preference cargo as well as commercial cargo. Millions of dollars have been spent by U.S.-flag liner companies in keeping them in compliance with U.S. Coast Guard requirements, according to U.S. law. To now be told that they would no longer be able to carry preference cargo would again lead to the options of a scrap heap, or closing down of business.

I think you can best see the prospective of what these two sections of the bill would do when you realize that over 85 percent of the existing U.S.-flag liner fleet would be prohibited from carrying preference cargo and military cargo as of October, 1992.

Any thought that the culling of the fleet in the above manner would lead to a stampede of U.S. operators to U.S. shipyards and a resurgence of building in such shipyards is misguided. What really would happen is that that cargo would be carried under foreign bottoms.

The reason it would not lead to an increase in building in a commercial shipyard is pure and simply the issue of cost. Preference and military cargo, while important incentive to flagging a U.S. vessel, it is not sufficient incentive to justify building a vessel in a U.S. shipyard at the astronomical additional costs involved. It must be remembered that preference cargo is essentially an export movement and thus for the remaining 50 percent homebound portion of a voyage such an expensive U.S.-built vessel would be an empty albatross that would quickly destroy the liner company that embarked on such a venture.

Indeed, even on the export leg, today's Government-impelled rates wouldn't even come close to being sufficient to meet the capital costs. In order to be successful the rates charged to the U.S. Goverment would have to be indeed many, many times higher than what they are today. It would be interesting to see what MSC or AID, what their views would be concerning the fact that only certain 12 or 13 ships could carry preference cargo in today's liner fleet.

Lastly, one additional item that we are very concerned about with H.R. 4662 is the issue of linakge. And that is linking the right of the U.S. shipowners to go and build foreign and building here in America either on a one-for-one basis building a commercial vessel, or taking one of the procure-and-charter vessels. In this way we'd

be linked to two economically impossible situations. First, we are being told we could build foreign, if we build a similar ship here. As stated, this is an $80- to $100-million penalty per vessel. In addition, it would take an extra two or three years.

Second, by way of an alternative, we are told we could build foreign if we could charter a vessel under the procure-and-charter program. But the very language of the bill that's been introduced says that the charter rate for the procure-and-charter vessels would have to be at a rate based on the capital costs, and it could not be lower than that. Again, it would be a rate that would be many, many times what our competitors would be paying. In addition, those kind of vessels would not be eligible for ODS under this bill. We believe that such a situation would be conomic ruination to the liner companies.

Don't misunderstand us, Members of the Committee and Chairman Jones, we are not against, but rather support Congress simultaneously addressing the different segments of the industry. What we are saying is that the inquiry into and review of the problem should go forward on a parallel, not overlapping tracks. In that way, existing solutions to one set of problems can be implemented and that industry, be it the liner or the shipbuilding industry, can be on its way to recovery.

The one issue that I would like to leave you with, and that we think is the most important, is that building foreign will not adversely affect U.S. shipyards. Most significant is the fact that solutions to ODS reform are within sight, will not cost vast amounts of money, and will not injure other segments of the merchant marine industry. The Commission on Merchant Marine and Defense specifically stated that one of their goals in helping the entire industry was not to make—and to make sure that they did not harm another industry. We believe that this bill in helping the shipyards, if that is what the goal is, would hurt us.

Whereas, if we're allowed to build foreign, which is at the threshold of all ODS legislation, we do not think it will hurt the shipyards in any way. Modernization of the U.S.-flag fleet with foreign-built vessels is not an alternative to building in U.S. shipyards. Rather, it is an alternative to no modernization at all, because there's been no building in U.S. shipyards by the international liner fleet for over 10 years.

It should be also noted that, even if there were adequate Federal resources to make merchant shipbuilding in the U.S. shipyards feasible, the building program over the next 10 years, that we foresee, while critical to those of us who need modern tonnage, will be really insignificant in solving the shipyards' dilemma. We said we built 26 liner vessels under the window in 1981 until today, 1988. In those eight years, that's been an average of three vessels a year. And that was at a surge when building was really needed. We don't anticipate even that much building over the next 10 years to keep the U.S.-flag fleet modern. So, we're talking about really two ships a year, or less, and that's just not a broad enough back to save the U.S. shipyards.

That concludes our prepared remarks on 4662, and we'd like now to discuss with you any questions you have.

[The prepared statement of Mr. Verdon can be found at end of hearing.]

Mr. JONES. Thank you, Mr. Verdon. You had me scared for a minute. I was afrad you were opposed to the entire bill, but I feel relieved now.

Mr. Grill, your prepared statement will be inserted following the oral presentations.

STATEMENT OF PHILIP M. GRILL, VICE PRESIDENT, GOVERNMENT RELATIONS, MATSON NAVIGATION CO., INC.

Mr. GRILL. Yes, thank you. Good afternoon, Mr. Chairman.

My name is Philip Grill. I'm Vice President, Government Relations, of Matson Navigation Company. I very much appreciate the opportunity to appear before you this afternoon. With your permission, I'd like to briefly summarize my statement, and submit my prepared remarks for the record.

Mr. JONES. There is certainly no objection to that, sir [Laughter.]

Mr. GRILL. I didn't think there would be.

The single point I would like to make is that Matson feels very strongly that ships built by the Federal Government and chartered to private operators should be excluded from the U.S. domestic trades, because their domestic use will exacerbate over-tonnaging and present insurmountable problems of unfair competition vis-a-vis Jones Act operators.

I was pleased to hear Mr. Stocker, representing the Shipbuilders Council, say in response to a question from you earlier, Mr. Chairman, that he was willing to look at this concern and he appears to have an open mind on it.

I would like to state for the record that Matson is an exclusively domestic operator. We operate a fleet of six container ships carrying cargo between U.S. Pacific Coast ports and the State of Hawaii. Since Matson's Hawaii service is exclusively in the domestic trades, all of these vessels were built without construction subsidy, and Matson receives no operating-differential subsidy.

The fundamental problem we have with a Federally-sponsored procure-and-charter program is that there is more than enough Jones Act vessel capacity now in the domestic trades. My statement briefly describes the vessel-carrying capacity of each of the primary domestic offshore trades, Puerto Rico, Alaska, and Hawaii. If I can just mention a highlight of each one.

In Puerto Rico, there was a decision of the Maritime Administrator, dated December 1983, which involved the Puerto Rican trade. The decision noted that undisputed evidence had been presented in that case that there was an over-tonnaging of 40 percent in the southbound direction and 600 percent in the northbound direction.

With respect to Alaska, Sea-Land recently introduced three new Jones Act container ships, built exclusively for that trade. These ships effectively doubled the previous capacity of Sea-Land's Alaskan fleet.

With respect to Hawaii, approximately one year ago Sea-Land replaced United States Lines as Matson's primary competitor, and promptly announced a 48-percent increase in the Hawaii cargo capacity of its fleet relative to the Hawaii cargo capacity historically

offered by U.S. Lines. In February, 1987, American President Lines, a subsidized company, applied for written permission under Section 805(a) of the Merchant Marine Act to enter the West Coast-Hawaii trade and provide weekly westbound sailings. One of the many reasons for Matson and the other unsubsidized Hawaii trade operators opposing the APL application is that it is projected that without APL there would be a 44-percent excess container capacity in the Pacific Coast-Hawaii trade in 1989. So obviously, if APL were to be successful, Matson and the other domestic carriers would be facing a severely over-tonnaged condition.

These domestic trades are relatively small. Obviously, if the Government were to embark upon a program that would artifically introduce new tonnage into those trades, this inevitably would exacerbate the over-capacity problem. Over capacity leads to freight rate cutting. This reduces profits, or it produces losses, and therefore makes it more difficult or impossible for the Jones Act operators to reinvest in U.S. shipyards for new and upgraded vessels.

Mr written statement makes a couple of points about some of the specific problems we have with some of the provisions of H.R. 4662. I'll skip over those and just close with one final point.

And that is the domestic trades are already completely reserved by the Jones Act to United States shipyards. If an ocean transportation need arises in these domestic trades, American operators possess sufficient capital that they will build or produce a Jones Act ship to fill that service void. Matson itself recently spent $18 million for two new barges for Neighbor Island cargo delivery. In 1987, we spent $48 million in Todd Pacific Shipyard on a vessel conversion. Plans are moving ahead relatively on schedule for the construction of two new diesel-powered container ships that would be delivered in the early 1990's to serve the Hawaii trade. Matson's Capital Construction Fund has $244 million in it, and this money, as a practical matter, has been dedicated to the construction of new ships and containers to serve the U.S. domestic trades. There is no need for the Federal Government to artifically produce more ships that would over-tonnage these domestic markets.

Thank you, Mr. Chairman. I'll be happy to respond to any questions.

[The prepared statement of Mr. Grill can be found at end of hearing.]

Mr. JONES. Mr. Corrado, your prepared statement will be inserted following the oral presentations.

STATEMENT OF ERNEST J. CORRADO, PRESIDENT, AMERICAN INSTITUTE OF MERCHANT SHIPPING

Mr. CORRADO. Thank you, Mr. Chairman.

My name is Ernest J. Corrado, President of the American Institute of Merchant Shipping, which is a national trade association representing 20 carriers, aggregating about eight million deadweight tons, principally in the domestic wet and dry bulk trades, but we represent significant liner tonnage and tonnage on charter to the MSC.

I will, with your permission, Mr. Chairman, submit my statement for the record and summarize very quickly. A lot of what I

wanted to say has been said. I few basic points before I get to H.R. 4662.

Mr. JONES. Without objection, the statement will be included in the record.

Mr. CORRADO. Thank you, sir.

First, do not think that the shipbuilding problem and the ship operator problem should be coupled. We think such a linkage is divisive in the industry, and fosters going along a track in which if I don't get mine, you don't get yours—a mindset which has happened all too frequently in this industry in the past. We think that, if there is an ODS program, the subsidy should be available to all operators equally, and equitably.

With respect to any procure-and-charter program, whether it's the Commission's or H.R. 4662, relating to the domestic wet bulk trades, there simply is not any cargo to justify such a program, Mr. Chairman.

In the coastwise trade such cargoes long since have become extinct. It's carried either by pipeline or by tugs and barges. Almost all of the domestic carriage today is from Alaska, Alaskan North Slope oil, and that's going to decline beginning two years from now, and it will decline rather sharply. If we don't get Arctic National Wildlife Refuge (ANWR) on stream, then there just won't be the cargo to support a domestic U.S.-flag bulk tanker fleet toward the middle of the next decade.

In addition, over the last five years, there has been a continuing controversy with respect to CDS payback in these same trades. There's the constant threat of the export of Alaskan oil, which would eliminate what petroleum cargo there is. So I don't see, Mr. Chairman, how either the Congress or the Administration could justify the expenditure of a billion dollars, and in my opinion it will be much more than that, for a procure-and-charter program for carriage in the domestic trades with respect to bulk cargoes—especially when there are now limited cargoes and, in the future, unless something like ANWR coming on stream, there will be almost no cargo. In addition, as has been pointed out, these trades are over-tonnaged. There are now some 20 vessels in lay-up that range in age from three to fifteen years, good tonnage.

Another point I'd like to make with respect to a procure-and-charter program has to do with manning, Mr. Chairman. The Commission didn't bring it up, but sooner or later manning will have to be faced. I understand it's a very difficult problem. A difficult subject to face. But, unfortunately, our costs are about three-quarters more than our competitors in the foreign trades. The Japanese have a Crew Modernization Committee that's now recommending that seven automated vessels be tried out with a crew of 11, and the Norwegians and the Swedes are talking about a trial program with crews of eight. Now, if the rest of the maritime world goes that way, Mr. Chairman, we can't continue to have the larger crews that we have on our vessels and not make some attempt to become competitive. And from what I've heard from the last several Maritime Administrators, unless the industry attempts to become competitive, the Administration is not going to produce the wherewithal for a merchant marine. So, that's a problem that I think has been ignored, but I don't think in the future, Mr. Chair-

man, it can be ignored. It will have to be faced one way or the other, no matter how difficult it is.

We, of course, do support a mobilization shipyard base. Anybody who remembers World War II remembers the ship capability, the railroad capability, which just is not there any more. Mrs. Bentley is completely correct that our mobilization, our industrial mobilization base is disappearing fast. And it's a very dangerous development for the welfare of the Country. But I don't think that the shipyard mobilization base should be supported at the expense of the ship operator, which H.R. 4662 does. And we believe there may be other ways to enhance the ship mobilization base.

As to H.R. 4662, itself, I'll try to encapsule our objections. The operators in the domestic trades have expended, at least in the wet and dry bulk trades, some $4 billion in investment. Now along comes H.R. 4662, which would provide that the Government build a vessel and charter it to somebody. Who, God knows, Mr. Chairman. I don't know any entrepreneur in the trades I just mentioned that will take even a free vessel and go into that trade. But the rates will not be stable because of the character of the building. The program would be very expensive.

Section 3 would terminate the carriage of preference cargoes in 1992 by U.S.-flag foreign-built vessels that were built by private capital, and built by the entrepreneur in a defined system that he has every right to expect will not be changed when he's got a five-, six-, seven-, eight-, or ten-year-old vessel.

We also object to the 20-year cut off. You know, just because a vessel's over 20 or 25 years old doesn't mean it's a bad vessel. I've used an example in my statement of the SS *Constitution,* the SS *Independence,* and the SS *Monterey.* The *Monterey* will come on stream soon. But those are examples of vessels that are approaching 40 and 50 years of age, and they're still operating. There are many good vessels in the fleet that should not be cut off from these trades, because they're 20 or 25 years old. In fact, as a result of the inability to build new vessels, the existing operators are going to take better care of their vessels, and try to string out the use of the vessels as long as possible.

As far as the one-for-one construction and ODS, I leave that to the ODS operators. I think the arguments have been made, Mr. Chairman, and with that I'll close. I'll be happy to answer any questions you may have, sir.

[The prepared statement of Mr. Corrado can be found at end of hearing.]

Mr. JONES. Thank you, Mr. Corrado.

Incidentally, I would agree that age should not be a factor in considering effectiveness. [Laughter.]

Mr. CORRADO. We're in accord.

Mr. JONES. Mr. Grill, at what rate is the domestic fleet replaced, and can you estimate the shipbuilding business in the next 10 years generated by the domestic trades?

Mr. GRILL. Mr. Chairman, it's very difficult to say at what rate or what age ships would be replaced in the domestic trades. Some of them run 35 to 40 years old, although that's not the typical age of the ships now serving the Hawaiian or the Alaskan trade.

I do know that, although the Jones Act has not been giving a lot of deep water vessel construction to U.S. shipyards lately, it did back in the early and mid-1970's. The Jones Act represented, I believe, about $400-million worth of U.S. shipyard work each year for several years. And so now, the Shipbuilders Council—and I've talked to them about this—is hoping that a lot of these ships in the Jones Act trades are reaching the end of their useful lives and we will see a resurgence in the not-too-distant future of some Jones Act ship construction for the domestic blue water trade routes.

Mr. JONES. Good. Thank you, sir.

One or two general questions for anybody who wants to answer them. What specific proposals do you have to strengthen the American shipbuilding and ship repair industry, if any?

Mr. CORRADO. I'll make a few remarks in that regard, Mr. Chairman.

Mr. JONES. All right, Mr. Corrado.

Mr. CORRADO. In the first place, I'd like to get my plug in for ANWR, which does relate to ship construction. I realize that this Committee has reported ANWR out, and we congratulate you and we're pleased with that. But now it's over in the Interior Committee where the legislation is faced with obstacles and opponents. ANWR does a number of things that are very helpful and important. And one of them is that it would help U.S. shipbuilding at no cost. If ANWR were to come on stream in the middle of the next decade, it would provide cargoes for the U.S.-flag tanker fleet when these cargoes from the North Slope will be declining; it will provide building for U.S. shipbuilders at no cost; it will provide secure energy supplies for the next several decades; it will provide business for Alaska; and it will provide business for such carriers as Crowley, Sea-Land, and Tote that serve Alaska. So we think ANWR will be a big help in all these areas.

But to get to your question specifically——

Mr. JONES. Would the gentleman yield just for a minute?

Mr. CORRADO. Yes, sir.

Mr. JONES. I would be very grateful if you would make that statement you just made to the Committee on Interior.

Mr. CORRADO. Well, we already have, sir.

Mr. JONES. I think it's very forceful.

Mr. CORRADO. Thank you, sir. We have already presented our statement to them.

With respect to specific aids for the shipbuilding industry, I think, Mr. Chairman, that what you do for them is what every other country in the world does for its shipbuilders. And we should do the same. Mrs. Bentley mentioned this morning, tax breaks. Tax could be a big factor with respect to enhancing the shipbuilding industry. Mrs. Bentley mentioned several tax provisions. I would also add to that relief under the Longshoremen and Harbor Workers' Act, which has a whole shipbuilding history of its own.

For example, the tax breaks that the foreign yards get, but we don't, are investment tax credit accelerated depreciation. We've gone in just the opposite direction in the last couple of years. I realize the difficulties involved with the Treasury Department and the Tax Committees in the House and Senate but, you know, you're not going to be able to help the yards without help of that

nature. In addition, you've got to have the expenditure of money on the part of the Federal Government. And you're going to have to do what all the other yards in the world do. Mr. Stocker laid out some of these things this morning, as, for example, the APL vessels being built in Germany. You have to give credits, you have to help and encourage a customer to come in, and you have to give them credits and financial help, you'll get the business. There's no reason in the world why we can't do the same thing, but it will cost money.

And the one thing that our yards do apparently very well is build military vessels. There's no reason why we can't sell our military vessels to other countries in the world. But the problem is to get the Administration behind programs like this. I think that's the answer, but not H.R. 4662; that is destructive of and detrimental to the operator. But it will require Administration support to foster these factors.

There's no great mystery, Mr. Chairman; it costs money, and we look at what everybody else in the world does, and we do the same. They have been quite successful. Why can't we be too?

Mr. GRILL. Mr. Chairman, I don't have a comprehensive answer to your question, unfortunately, but I could make one observation that has been of concern to Matson and a concern to the Shipbuilders Council.

And that is, the use of aging CDS ships in the domestic trades. We are seeing this in Hawaii, and you're going to see it in Puerto Rico as well. So, where you may have had Jones Act ship construction taking place, several older CDS ships have become available recently, and they are finding their way into the domestic trades and displacing what otherwise might be U.S. shipyard construction opportunities.

Mr. JONES. That you, Mr. Grill.

Finally, rather than procure and charter, should we develop a national policy to increase the amount of cargo available and to strengthen the shipyards through modernization incentives and Government subsidy?

I think I know the answer, but go ahead.

Mr. VERDON. I'll go first, Congressman.

I think that we should develop a national policy to increase the amount of cargo, and I think the best way to do that would be to give us competitive tools to allow ourselves to go out and get the cargo. I think if we can have competitive ships at competitive prices, we will get our fair share of the cargo.

Today, we heard people say that getting the cargo is very important. Well, for the pool of ships we have in the international liner fleet, we are getting our fair share of the cargo. We're getting as much as the ship capacity can carry. Our ships going out and coming homebound on the containerization and break bulk level for the liner fleet are almost full each way. We are doing as good, if not better, utilization wise, then any other foreign operator. Our problem is that there are too few American-flag vessels. If we can get more vessels and more vessels that are competitive, diesel-powered, cheaper vessels, we'll get more cargo. So I think that that's the best way of increasing your cargo shares, to give us the tools to go out and get it.

With regard to instead of a procure-and-charter program, with regard to incentives in Government subsidy for the shipyards, again, we would like to emphasize the fact that the shipowners of America are not against the shipyards getting a resolution to their problems. But while we are coming up with the needed money, and that's what it comes down to for the shipyards, the needed money to implement building in American shipyards, we're simply saying, please don't hold us hostage until that is done. Because if you do, we will wither on the vine and die.

Thank you.

Mr. JONES. Any further discussion?

Mr. CORRADO. Does your question, Mr. Chairman, include commercial cargo preference? Is that what you're——

Mr. JONES. I'm assuming it would, yes.

Mr. CORRADO. Because this morning there was much talk about commercial cargo preference. I sat here as Chief Counsel during the three times in the last decade in 1972, 1975, and 1977, when commercial cargo preference came before the Congress. I watched the evolution and the disintegration of the support, and the evolution of the opposition over the years. And I don't think politically it's feasible in either the Administration or the Congress at the present time. There's no question it would produce cargo, but from a political standpoint, I have my doubts about the possibility of the enactment of a commercial cargo preference device in the immediate future.

Mr. JONES. Thank you very much.

If that concludes your testimony, I want to thank each of you three for your appearance here this afternoon. Sorry to hold you up so long, but you understand it is beyond our control.

Mr. CORRADO. Thank you, sir.

Mr. VERDON. Thank you.

Mr. GRILL. Thank you, Mr. Chairman.

Mr. JONES. The Subcommittee stands adjourned.

[Whereupon, at 4:17 p.m., the Committee was adjourned.]

[The following was submitted for the record:]

I

100TH CONGRESS
2D SESSION

H. R. 4662

To revitalize the maritime industry in the United States, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 24, 1988

Mr. DAVIS of Michigan (for himself and Mr. JONES of North Carolina) (both by request) introduced the following bill; which was referred to the Committee on Merchant Marine and Fisheries

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A BILL

To revitalize the maritime industry in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. PROCURE AND CHARTER.

The Merchant Marine Act, 1936 (46 App. U.S.C. 1101 et seq.), is amended by adding at the end thereof the following new title:

"TITLE XIV—PROCURE AND CHARTER

"SEC. 1401. (a) There is established in the Treasury of the United States a fund, to be known as the Procure and

Charter Revolving Fund (hereinafter in this title referred to as the 'Fund'). The Fund shall consist of—

"(1) all moneys appropriated to the Fund;

"(2) all moneys received for the charter or disposal of vessels constructed under this title;

"(3) interest and investment income, and capital appreciation of the Fund balance; and

"(4) any other moneys as may be made available for the purposes of the Fund.

"(b) The Secretary of the Treasury shall invest such portion of the Fund as is not in the judgment of the Secretary of Transportation required to meet current withdrawals. Such investments shall be in public debt securities with maturities suitable to the needs of the Fund, as determined by the Secretary of Transportation, and bearing interest at rates determined by the Secretary of the Treasury, taking into consideration current market yields on outstanding marketale obligations of the United States of comparable maturities. The income on such investments shall be credited to and form a part of the Fund.

"(c) If at any time the Secretary of Transportation determines that the balance in the Fund plus anticipated moneys from charters is insufficient to support maintenance of vessels constructed under this title—

"(1) the Fund shall be terminated; and

"(2) the vessels constructed under this title shall be transferred to the National Defense Reserve Fleet.

"SEC. 1402. (a) The Fund shall be administered by the Secretary of Transportation and moneys in the Fund may be used for—

"(1) construction of vessels in private shipyards in the United States;

"(2)(A) charter of vessels to citizens of the United States for documentation under the laws of the United States and operation in the domestic trade, foreign commerce of the United States, or international trade; or

"(B) transfer of vessels constructed under this title to the National Defense Reserve Fleet.

"(b) For the purpose of this section, 'construction of vessels in private shipyards in the United States' means that—

"(1) all major components of the hull and superstructure of the vessel are fabricated in the United States;

"(2) the vessel is assembled entirely in the United States; and

"(3) at least 50 per centum of the cost of all major items of machinery (including propulsion) and components which are not an integral part of the hull

or superstructure of the vessel is of United States origin.

"(c) No contract for the construction of a vessel under this title shall be made by the Secretary of Transportation with any private shipyard, except after due advertisement and upon sealed competitive bids.

"SEC. 1403. (a) The Secretary of Transportation shall construct vessels in private shipyards in the United States that—

"(1) the Secretary of the Navy determines is capable of serving as a naval or military auxiliary in time of war or national emergency, or

"(2) the Secretary of Transportation determines is economically viable, or

"(3) the Secretary of the Navy and the Secretary of Transportation determine is otherwise unavailable in sufficient numbers for requisitioning by the Secretary of Transportation in time of war or national emergency from vessels documented under chapter 121 of title 46, United States Code.

"(b) The Secretary of Transportation may charter a vessel constructed under this title to a citizen of the United States after due advertisement and cometitive bid or negotiated procurement.

"(c) The Secretary of Transportation may transfer a vessel constructed under this title to the National Defense Reserve Fleet or otherwise dispose of the vessel in a manner that is consistent with the best interests of the United States.

"SEC. 1404. (a) In soliciting and awarding a contract for the construction of a vessel, the Secretary of Transportation shall—

"(1) encourage the use of standard vessel designs with generic applicability for series construction of vessels in private shipyards in the United States;

"(2) encourage significant reductions in vessel construction cost and time of delivery through the use of advanced ship construction techniques and manufacturing technology; and

"(3) consider the relationship of the different types of available cargo to the type of vessel to be constructed.

"(b) The Secretary of Transportation may award a construction or charter contract, or a combined construction and charter contract, to the bidder with the proposal that the Secretary determines to be the most financially advantageous to the Fund.

"(c)(1) The Secretary of the Navy may incorporate sealift enhancement or national defense features in a vessel con-

structed under this title. The Secretary shall use monys authorized to be appropriated for that purpose.

"(2) The Secretary of the Navy shall make, subject to appropriations laws, additional payments to compensate a charterer for the loss of capacity or efficiency attributable to sealift enhancement or national defense features in a vessel constructed under this title.

"SEC. 1405. (a)(1) In awarding a charter contract for a vessel, the Secretary of Transportation shall consider a charterer's financial resources, credit, practical experience in the opeation of vessels, or any other factors that would be considered by a prudent businessperson engaging in a comparable commercial transaction.

"(2) The Secretary of Transportation may provide in the charter contract for an escalation or periodic renegotiation of the contract to reflect changes in market conditions.

"(3) The Secretary of Transportation may require the charter to—

"(A) deposit with the Secretary adequate security for the faithful performance of all covenants of the contract, including indemnity against liens on the vessel in an amount prescribed by the Secretary;

"(B) maintain at the charterer's expense insurance policies covering all marine and port risks, and all other hazards and liabilities, in those amounts, in that

form, and with those insurance carriers, as the Secretary may approve, adequate to cover all damages claimed against and losses sustained by the vessel during the life of the contract; and

"(C) maintain at the charterer's expense the vessel in good state of repair, in class, in compliance with its certificate of inspection, in safe and efficient operating condition, and to make at the charterer's expense any repairs required by the Secretary.

"(4) The Secretary of Transportation may inspect a vessel under charter contract at any time to determine its condition.

"(5) The Secretary of Transportation may terminate the charter contract as provided in section 902(a) of the Merchant Marine Act, 1936 (46 App. U.S.C. 1242(a)).

"(b) The Secretary of Transportation shall not charter a vessel constructed under this title for an amount less than the capital cost of the vessel, not including sealift enhancement or national defense features, less reasonable depreciation based on a twenty year life of the vessel.

"(c) The Secretary of the Navy may charter a vessel constructed under this title for use by the Department of the Navy, after due advertisement and competitive bid or negotiated procurement: *Provided,* That the operation of such

vessel shall not adversely affect the commercial operation of a vessel documented under the laws of the United States.

"(d) A citizen of the United States who charters a vessel constructed under this title is not eligible to receive operating differential subsidy for the operation of that vessel under title VI of the Merchant Marine Act, 1936 (46 App. U.S.C. 1171–1176), except when the vessel is engaged as an ocean tramp.".

SEC. 2. AUTHORIZATION.

In fiscal year 1989, there is authorized to be appropriated to the Procure and Charter Revolving Fund any amounts as may be necessary to capitalize the Fund.

SEC. 3. CONFORMING AMENDMENTS.

(a) Section 901(b)(1) of the Merchant Marine Act, 1936 (46 App. U.S.C. 1241(b)(1)) is amended by striking the last sentence and inserting in lieu thereof the following: "For the purposes of this section, 'privately owned United States-flag commercial vessels' shall not be deemed to include any vessel built outside the United States and, if more than twenty years old, is within five years of having been substantially rebuilt in the United States and certified by the Secertary of Transportation as having a useful life of at least five years after that rebuilding.".

(b) The Act of March 26, 1934 (46 App. U.S.C. 1241–1) is amended by adding the following: "For the purposes of

this section, 'vessels of the United States' shall not be deemed to include any vessel built outside the United States and, if more than twenty years old, is within five years of having been substantially rebuilt in the United States and certified by the Secretary of Transportation as having a useful life of at least five years after that rebuilding".

(c) Section 901k of the Merchant Marine Act, 1936 (46 App. U.S.C. 1241o) is amended to read as follows:

"A United States-flag vessel eligible to carry cargoes under sections 901b through 901d means a vessel, as defined in section 3 of title 1, United States Code, that is necessary for national security purposes, built in the United States, and, if more than twenty years old, is within five years of having been substantially rebuilt in the United States, and certified by the Secretary of Transportation as having a useful life of at least five years after that rebuilding.".

(d) The Cargo Preference Act of 1904 (10 U.S.C. 2631) is amended by adding the following: "For the purposes of this section, 'vessels of the United States' shall not be deemed to include any vessel built outside the United States and, if more than twenty years old, is within five years of having been substantially rebuilt in the United States and certified by the Secretary of Transportation as having a useful life of at least five years after that rebuilding.".

(e) The provisions of this section shall become effective on October 1, 1992.

SEC. 4. VESSEL PROCUREMENT RESTRICTIONS.

Section 610 of the Merchant Marine Act, 1936 (46 App. U.S.C. 1180) is amended—

(1) by inserting "(a)" immediately before "An operating-differential subsidy"; and

(2) by adding at the end the following:

"(b) Notwithstanding any other provision of law, any liner vessel over five thousand deadweight tons documented under the laws of the United States and owned by a citizen of the United States and operated by a citizen of the United States shall be deemed to have been built in the United States (regardless of where actually constructed, reconstructed, or modified on any prior or subsequent date) for the purposes of this title (except section 607).

"(c) An operator receiving or applying for operating-differential subsidy under this title may construct, reconstruct, or acquire its liner vessels over five thousand deadweight tons in a foreign shipyard after the effective date of this Act: *Provided,* That such operator or another operator has placed a firm order to construct a vessel of substantially equivalent capacity in a private shipyard in the United States, or such operator or another operator has entered into

charter contract with the Secretary of Transportation under title XIV of the Merchant Marine Act, 1936, as amended.".

I

100TH CONGRESS
2D SESSION

H. R. 4704

Authorizing the National Oceanic and Atmospheric Administration to modernize and expand its fleet of ocean research vessels, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 26, 1988

Mr. JONES of North Carolina (for himself, Mr. DAVIS of Michigan, Mr. LOWRY of Washington, Mr. STUDDS, Mr. BIAGGI, Mr. BATEMAN, Mr. ANDERSON, Mrs. BENTLEY, Mr. LIPINSKI, Mr. HUGHES, and Mr. TALLON) introduced the following bill; which was referred to the Committee on Merchant Marine and Fisheries

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A BILL

Authorizing the National Oceanic and Atmospheric Administration to modernize and expand its fleet of ocean research vessels, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "National Oceanic and Atmospheric Administration Fleet Modernization Act of 1988".

SEC. 2. FINDINGS.

The Congress finds that—

(1) the vessels of the National Oceanic and Atmospheric Administration (hereafter in this Act referred to as "NOAA") support important fisheries, oceanographic, mapping and surveying, and meteorological programs and projects;

(2) the NOAA fleet represents approximately one-third of the total Federal ocean research fleet;

(3) by the end of the 1980's, the average age of the vessels in the NOAA fleet will be 25 years, which is the average industry-accepted service life for vessels;

(4) a recent engineering study of the NOAA fleet, based solely on its current usage, has concluded that four vessels of the fleet need to be replaced and the remaining vessels need to be modernized;

(5) NOAA has new responsibilities for surveying and mapping the Exclusive Economic Zone of the United States and its offshore territories and possessions, for monitoring global climate change, and for fisheries research, that require the addition of seven new vessels to the fleet;

(6) NOAA's overall responsibilities will require a 30-vessel fleet;

(7) recent advances in technology have led to the development of modern scientific equipment for re-

search vessels which would enable NOAA to perform its functions more efficiently; and

(8) unless NOAA implements a modernization and replacement program at this time, NOAA's ability to carry out its assigned missions will be significantly impaired, and a more expensive total fleet replacement program will be required later.

SEC. 3. PURPOSES.

It is the purpose of this Act—

(1) to direct NOAA to implement a fleet modernization and expansion program over a 10-year period;

(2) to authorize NOAA to acquire modern scientific instrumentation for its fleet;

(3) to authorize NOAA to increase its personnel to the extent necessary to develop specifications for, provide for the construction, leasing, or other acquisition of, operate, and maintain the improved and expanded NOAA fleet;

(4) to authorize NOAA to enter into multi-year contracts for the construction, leasing, or other acquisition of vessels;

(5) to direct NOAA to modernize and construct its vessels under this Act in private shipyards in the United States; and

(6) to authorize appropriations necessary to carry out this Act over a 10-year period.

SEC. 4. FLEET MODERNIZATION AND EXPANSION.

(a) IN GENERAL.—NOAA shall develop a fleet modernization and expansion program, and implement that program over a 10-year period beginning in fiscal year 1990. Such program shall include—

(1) the modernization of seventeen currently operational vessels;

(2) the replacement of four vessels;

(3) the construction, lease, or other acquisition of seven new vessels;

(4) the reactivation and modernization of two vessels;

(5) the operation and maintenance of a modernized and expanded NOAA fleet; and

(6) the acquisition of modern scientific instrumentation for such fleet, including acoustic systems, data transmission positioning and communication systems, physical, chemical, and meteorological oceanographic systems, and data acquisition and processing systems.

(b) SPECIFIC SCHEDULE.—(1) The Under Secretary shall, in fiscal year 1990—

(A) modernize one Class I, one Class III, and one Class IV vessel;

(B) develop specifications for one Class III replacement vessel;

(C) develop specifications for one new Class I deepwater oceanographic research vessel;

(D) begin development of specifications for one new Class II bathymetric survey vessel; and

(E) operate two reactivated vessels.

(2) The Under Secretary shall, in fiscal year 1991—

(A) modernize two Class I vessels;

(B) award a contract to construct or otherwise replace one Class III vessel referred to in paragraph (1)(B);

(C) begin the development of specifications for one Class IV replacement vessel and one new Class II fisheries research vessel;

(D) award a contract to construct or otherwise acquire the new Class I deepwater oceanographic research vessel referred to in paragraph (1)(C); and

(E) continue to develop specifications for the new Class II bathymetric survey vessel referred to in paragraph (1)(D).

(3) The Under Secretary shall, in fiscal year 1992—

(A) modernize one Class I, one Class IV, and one Class V vessel;

(B) complete the specifications for the Class IV replacement vessel and the new Class II fisheries research vessel referred to in paragraph (2)(C); and

(C) award a contract to construct or otherwise acquire the new Class II bathymetric survey vessel referred to in paragraph (1)(D).

The Under Secretary shall continue to implement the fleet modernization and expansion plan in subsequent years.

SEC. 5. PERSONNEL.

NOAA is authorized to fill 301 additional personnel positions, including 49 commissioned officers, to develop specifications for, provide for the construction, lease, or other acquisition of, operate, and maintain the modernized and expanded NOAA fleet.

SEC. 6. REPORT.

Within 3 months after the date of the enactment of this Act, the Under Secretary shall submit to the Congress a detailed plan for the implementation of this Act, including a schedule of anticipated modernizations, acquisitions of vessels, acquisitions of scientific instruments, hiring of additional personnel, and annual funding requirements.

SEC. 7. CONTRACT AUTHORITY.

(a) MULTI-YEAR AUTHORITY.—Notwithstanding the provisions of section 1341 of title 31, United States Code, and section 10 of the Act of March 2, 1861 (41 U.S.C. 11),

the Under Secretary may enter into multi-year contracts for the construction, lease, or other acquisition of property, including vessels, equipment, and services necessary to carry out this Act, and may enter into a multi-year charter agreement for one of the seven new vessels referred to in section 4(a) of this Act, if the Under Secretary finds—

(1) that there is a reasonable expectation that throughout the contemplated contract or charter agreement period the Under Secretary will request funding from the Congress for the contract or charter agreement at the level required to avoid contract or charter agreement cancellation; and

(2) that the use of such contract or charter agreement will promote the best interests of the United States by encouraging competition and promoting economic efficiency in the operation of the NOAA fleet.

(b) TERMINATION LIABILITY.—The Under Secretary may make appropriate provision in each contract or charter agreement entered into under this section that in the event of termination of the contract or charter agreement before the expiration of the stated term, the United States shall be liable for a specified amount to the contractor or charter agreement party, which shall be a valid obligation of the United States. In the event of any such termination, such amount may be paid from—

(1) amounts originally appropriated for the performance of the contract or charter agreement;

(2) amounts then available from appropriations for procurement of the type of acquisition concerned, and not otherwise obligated; or

(3) amounts specifically appropriated for such payment.

(c) MODERNIZATION OR CONSTRUCTION WORK IN UNITED STATES.—All modernization or construction work performed on vessels in the NOAA fleet under the authority of this Act shall be carried out in private shipyards in the United States, except in case of emergency, as follows:

(1) All major components of the hull and superstructure of the vessel shall be fabricated in the United States.

(2) The vessel shall be assembled entirely in the United States.

(3) At least 50 percent of the cost of all machinery (including propulsion) and components which are not an integral part of the hull or superstructure of the vessel, except for scientific equipment which cannot reasonably be purchased in the United States, shall be attributable to items procured in the United States.

SEC. 8. AUTHORIZATION OF APPROPRIATIONS.

There is authorized to be appropriated for carrying out this Act over the 10-year period encompassing the fiscal years 1990 through 1999, $613,000,000; of which $37,000,000 shall be for fiscal year 1990, $95,500,000 shall be for fiscal year 1991, and $77,700,000 shall be for fiscal year 1992. Any amounts authorized but not appropriated for a specific fiscal year shall be available for appropriation in subsequent fiscal years.

SEC. 9. DEFINITIONS.

For purposes of this Act—

(1) the term "Class I vessel" means a vessel with respect to which the sum of its shaft horsepower and gross tonnage is greater than 5,501 but does not exceed 9,000;

(2) the term "Class II vessel" means a vessel with respect to which the sum of its shaft horsepower and gross tonnage is greater than 3,501 but does not exceed 5,500;

(3) the term "Class III vessel" means a vessel with respect to which the sum of its shaft horsepower and gross tonnage is greater than 2,001 but does not exceed 3,500;

(4) the term "Class IV vessel" means a vessel with respect to which the sum of its shaft horsepower

and gross tonnage is greater than 1,001 but does not exceed 2,000;

(5) the term "Class V vessel" means a vessel with respect to which the sum of its shaft horsepower and gross tonnage is greater than 501 but does not exceed 1,000;

(6) the term "gross tonnage" means cargo carrying capacity expressed in units of 100 cubic feet;

(7) the term "modernization" means the upgrading, repair, replacement, overhaul, inspection, or installation of the hull, superstructure, or components of a vessel;

(8) the term "multi-year" means more than one but not more than 10 years;

(9) the term "shaft horsepower" means the total horsepower produced by a vessel's main propulsion engines; and

(10) the term "Under Secretary" means the Under Secretary of Commerce for Oceans and Atmosphere.

U.S. House of Representatives
Committee on
Merchant Marine and Fisheries
Room 1334, Longworth House Office Building
Washington, DC 20515-6230

June 13, 1988

TO: MEMBERS, SUBCOMMITTEE ON MERCHANT MARINE

FROM: Majority and Minority Staff

SUBJECT: Hearing on H.R. 4704 -- to authorize the National Oceanic and Atmospheric Administration (NOAA) to modernize and expand its fleet of ocean research vessels and for other purposes; and H.R. 4662 -- to establish a procure-and-charter program and for other purposes. (Tuesday, June 14, 1988)

INTRODUCTION

At 10:00 a.m. on Tuesday, June 14, 1988, the Subcommittee on Merchant Marine will hold a hearing on H.R. 4704 -- to authorize the National Oceanic and Atmospheric Administration to modernize and expand its fleet of ocean research vessels, and for other purposes; and on H.R. 4662 -- to establish a procure-and-charter program, and for other purposes.

BILLS UNDER CONSIDERATION

H.R. 4704

On May 26, 1988, Chairman Jones, Mr. Biaggi, Mr. Davis, and eight cosponsors introduced H.R. 4704. The National Oceanic and Atmospheric Administration Fleet Modernization Act of 1988 authorizes a ten-year, $613-million program to rehabilitate and expand the fleet of NOAA research vessels. NOAA's current fleet of 23 vessels would be expanded to 30 vessels.

H.R. 4704 directs NOAA to develop and implement a fleet modernization and expansion program over a ten-year period beginning in fiscal year 1990. The age and deteriorated state of vessels currently in the fleet, the lack of modern scientific equipment, and the need to meet new missions require the modernization and

expansion program. Over ten years, NOAA would modernize 17 vessels, replace four vessels, construct or otherwise procure seven new vessels, reactivate two vessels currently laid up, procure modern scientific equipment, and hire or contract with the workers needed to operate the modernized, expanded fleet. NOAA is given the new multiyear contracting authority it needs to achieve the program's objectives.

The bill would require all vessels in the plan to be modernized or built in American private shipyards. All major hull and superstructure components would have to be fabricated in the United States. Except for scientific equipment that cannot be bought in the United States, at least half of all machinery and components would have to be bought in this country.

H.R. 4662

On May 24, 1988, Mr. Davis and Chairman Jones introduced H.R. 4662, a procure-and-charter proposal, at the request of the Shipbuilders Council of America. (The Council represents the largest American shipbuilders and many of the U.S. ship repair facilities.)

The purpose of this procure-and-charter program is to construct ships for commercial operation that can be used for military sealift. The program would add tonnage for sealift; avoid the expense of maintaining additional, inactive sealift assets; eliminate the need to immediately recruit experienced crews; and efficiently employ ships in the commercial trade.

An excess of commercial tonnage exists in the world economy. However, U.S.-flag commercial vessels that are of the size, capacity, and speed required for military sealift are in short supply. Since 1981, a series of Defense Department studies and the Commission on Merchant Marine and Defense (Bennett Commission) report released in December 1987 have identified shortfalls in U.S. sealift mobility and shipyard mobilization requirements.

The need for this program is driven by the need for our Nation to maintain viable shipyard mobilization base. By creating new commercial construction, the program would not only add militarily-useful vessels to the U.S. fleet but would also enhance the ability of our shipyards to build and repair the ships needed in the event of war or national emergency.

H.R. 4662 establishes a procure-and-charter program that the Department of Transportation would administer. The program would be initially funded through appropriations to a revolving fund. Contracts for these U.S.-built vessels would be duly advertised and awarded based on sealed, competitive bids. The bill gives the Secretary of the Navy authority to pay for incorporating sealift enhancement or national defense features in a vessel constructed under the program. Further, the Secretary of the Navy is authorized to compensate the charterer for lost capacity

or efficiency attributable to sealift enhancement or national defense features on a vessel built under the procure-and-charter program.

The Secretary of Transportation would charter vessels after due advertisement and competitive bids or negotiated procurement. The vessels would be chartered at fully capitalized costs to U.S. operators for use in the domestic and foreign commercial markets. A citizen who charters a vessel built under the procure-and-charter program would not be eligible to receive operating-differential subsidy (ODS) for the operation of that vessel, except when the vessel is engaged as an ocean tramp. However, operators of liner vessels over 5,000 DWT procured overseas would be eligible for ODS.

After 1992, only U.S.-built vessels would be allowed to carry preference cargo. A vessel more than 20 years old would only be eligible to carry preference cargo if it is within five years of having been substantially rebuilt in the United States and has been certified by the Secretary of Transportation to have a useful life of at least five years. American seamen would man the vessels, regardless of whether they were built in the United States or in a foreign country.

H.R. 4662 further restricts a commercial operator's ability to acquire foreign-built vessels by linking the authority to build foreign to the U.S. operator's building or chartering a like-sized U.S.-built vessel through the procure-and-charter program.

The legislation does not set a funding level or a number of vessels. The Commission on Merchant Marine and Defense recommends that 12 ships be procured over a ten-year period.

BACKGROUND

Since colonial times, American leaders have recognized the importance of the ability to build and repair vessels in the United States. However, except in time of war or national emergency, Americans have been reluctant to devote the resources needed to insure the strength of the shipyard mobilization base.

During the colonial period, population centers generally were located near water. Inexpensive timber found in coastal forests was used to build ships. Until the late 1800's, in fact, water transportation was the easiest, most expeditious way to move people and goods. By 1850, the American merchant marine was the second largest in the world.

During the past 150 years, merchant ship construction in the United States has followed the fluctuating curve of national interest in maritime affairs. The turning point of the upward spiral for the American shipbuilding industry was the end of the Civil War. Thereafter, interest in shipping and the shipbuilding

industry waned until the Shipping Act of 1916 was passed. During and after the Civil War, important changes were taking place in ship construction. Vessels were being built of iron and propelled by steam, supplanting wooden hulls driven by wind and sail. Foreign shipbuilders, who had made rapid progress in technical developments and improvements while the Civil War was being fought, gained further advantages from lower labor, material, and other costs, compared with similar costs in the United States (a situation that exists to this day). The lag in America's capability to bend iron sheets into large shapes to construct hulls in domestic shipyards also gave foreign shipyards superiority over their American counterparts.

In the years between the Civil War and World War I, the maritime industry reached its lowest point. In fact, because of the lack of adequate shipbuilding facilities and shipping services during the Spanish-American War, the United States had to buy ships from foreign countries to sustain its naval forces.

World War I brought home to the American people and to the Congress an understanding of the plight of shipbuilding facilities and the inadequacy of the U.S. merchant marine. In 1914, U.S.-flag ships were employed largely in the coastal trade and carried approximately 10 percent of America's international trade. Today, U.S. ships carry less than five percent. The bulk of U.S. cargo was carried on British, French, German, and Italian vessels -- all of which were withdrawn from the U.S. commerce at the outbreak of the War. Without U.S. ships and the capacity to build them, crops rotted in the fields and surpluses were burned to save storage.

We began a feverish build-up of the shipyards in this country in response to the crisis. A massive shipbuilding program that included more shipyard construction was implemented. The shipbuilding industry -- under the authority of the Shipping Act of 1916 and the stimulus of the war in Europe -- delivered 1,409 ships, totaling 8 million gross tons, between 1916 and the end of 1921. Of that total, however, 1,033 ships (or 5.9 million gross tons) were delivered after the War was over.

After the War, yards were shut down, and vessels had to be disposed of. The Merchant Marine Act of 1920 was designed to facilitate the disposal of those surplus ships. That Act, in conjunction with the 1928 Merchant Marine Act, were designed to assist the development of U.S. merchant marine industries. Despite the incentives in the 1920 Act, only 28 ships were built between 1923 and 1928. All were for operation in the domestic trades. Forty ships were built between 1929 and 1933 in accordance with the construction loan and mail provisions of the 1928 Act. These were largely combination passenger/cargo vessels.

In the bleak years between the wars, only the strongest shipyards survived.

In 1935, President Franklin Roosevelt, in his message to Congress, expressed his strong support for the merchant marine and called the industry a national asset. Roosevelt's strong recommendation and support for strengthening the merchant marine, and the Congress' recognition that a more effective policy was needed to maintain an active maritime fleet, culminated in enactment of the Merchant Marine Act of 1936. The 1936 Act authorized creating the Maritime Commission as an independent agency. The Commission had as its charter the modernization of the U.S. merchant marine. This was to be accomplished, in part, through the use of direct subsidies.

Title V of the Merchant Marine Act, 1936 authorized the Commission to pay construction-differential subsidy to reduce or eliminate the cost disparity that existed (and still exists) between U.S. and foreign shipbuilding prices. To be eligible for subsidy, vessels are required by the Act to be built in U.S. shipyards, owned by U.S. citizens, crewed by U.S. citizens, and operated under the U.S. flag in the foreign commerce of the United States.

When it became apparent that war was inevitable, the Commission formulated plans for a building program of 50 fast-cargo ships over a ten-year period. The plan was of incalculable value when the war in Europe broke out in September 1939. It provided the foundation for expanding the American shipbuilding industry to World War II levels.

The Maritime Commission built 21 new emergency shipyards and created additional building ways in almost all of the existing private yards. The new yards remained under Government ownership but were operated by private companies. Including extensions in the older yards and the new yards that were built, the Commission financed 43 private shipyards and the Navy, 80 yards.

Within the first months of 1942, 82 merchant ships were torpedoed off the East Coast alone. In the entire War, 700 merchant ships were sunk at the cost of the lives of 5,600 merchant seamen. Shipbuilding became a feverish race between sinkings and conatruction. During the War, the shipyard capacity was expanded four times over. U.S. shipyards did not win that race until 1943, the year the industry reached its peak.

The years following the War were difficult for the shipbuilding industry. As in past wars, American-flag operators had the war-built ships with which to service the United States' domestic and foreign trades. The need to update their fleets to compete with newer, more efficient foreign-flag fleets was not felt until the huge aid programs declined. Government maritime programs, never a high priority in peacetime, gave little attention to the dangers of the merchant marine's growing obsolescence, and the shrinking share of foreign commerce carried by a diminishing U.S.-flag fleet.

Unlike World War II, the mobilization required for the Korean and Vietnam conflicts was a surge, rather than a full-scale mobilization. In an effort to stimulate shipbuilding during the Korean conflict, the Maritime Administration (MARAD) ordered for Government account 35 ships of the new Mariner class. They were of excellent design, particularly configured for the cargoes that moved in the highly competitive liner trades and for military service. Capable of 20 knots' sustained speed, these breakbulk ships set the standard for speed on all the major U.S. trade routes. The 35 Mariner vessels were constructed between 1952 and 1955.

The tonnage and value of United States oceangoing exports and imports were growing larger each year, but U.S.-flag ships were carrying a steadily decreasing share of those cargoes. Concurrently, general cargo vessels underwent a radical change in configuration to the high-tech container vessel -- vessels that being built in increasing numbers in modern yards overseas, but which had limited sealift utility.

By 1969, the share of American oceangoing foreign trade carried by U.S.-flag ships in all services reached its lowest point in 50 years. For example, in 1947, the share of U.S.-flag cargo vessels engaged in foreign trade was nearly 60 percent; by 1970, the percentage had dropped to a mere 5.3 percent.

Few tankers were being built for operation in the foreign trade, and virtually no bulk ships were being constructed. In the 14-year period, 1956 through 1969, United States shipyards delivered to American owners 268 ships, principally dry-cargo types.

With few exceptions, the shipbuilding industry found it difficult to survive with so few ships on order. Naval construction and repair, which had been so important for several of the larger yards, was being cut back.

On October 23, 1969, President Richard Nixon sent a message to Congress, containing a maritime program to revitalize the merchant marine industry. The Merchant Marine Act of 1970 was signed into law on July 1, 1971. Among other provisions, the law authorized the construction in American shipyards over a ten-year period of 300 ships for operation in the U.S. foreign trade, and authorized the payment of construction- and operating-differential subsidies to bulk carriers and tankers.

In 1970, naval work still dominated the shipbuilding and ship repair activities of commercial shipyards throughout our Nation. In that year, twice as many Navy ships as commercial vessels were built in private yards. Their relative importance in the shipbuilding industry, however, significantly changed with the passage of the 1970 Act. A substantial increase in orders for constructing tankers and bulk carriers gradually increased the share of commercial jobs. In 1973, the value of shipbuilding and repair work equalled that of Navy work.

By mid-1974, our Nation's private yards were for the first time constructing more commercial ships than Navy ships; 93 merchant ships of various types were under construction or on order in contrast to 63 naval vessels. During 1974, 38 new commercial vessels were delivered. These included tankers, dry-bulk carriers, a containership, barge carriers, and break-bulk carriers. From 1971 to 1978, the shipyards spent over $25 million on capital improvements.

The bright hopes that passage of the 1970 Act engendered did not materialize. Unfortunately, the new program was initiated during a period when the international market for tankers and bulk carriers was demoralized. Charter rates were very low. The severe competition in the U.S. liner trades from increasing numbers of foreign-flag containerships eventually resulted in overtonnaging, and rate-cutting became prevalent. American operators were reluctant to order expensive ships when opportunities for profit were so uncertain.

The Arab oil embargo, which began in late 1973, and the subsequent disastrous quadrupling of oil prices in 1974 highlighted the energy problems confronting the United States and the rest of the world. Worldwide inflation and the slowing of economic growth affected trade, intensified shipping competition, and caused a substantial drop in orders for new ships from world shipyards, especially for tankers and bulk carriers. Expectations that American oil companies and heavy industry corporations would find the 1970 Act attractive enough to order tankers and bulk carriers from U.S. shipyards were not met.

Since 1936, the CDS program has provided cost parity to permit our vessels to compete against cheaper-built, foreign-flag vessels. Until 1973, this program was practical and cost effective. Since that time, worldwide shipping conditions have further distanced American shipyards' costs from their foreign competitors'.

Among the factors contributing to this cost differential are that lesser developed countries with lower wage scales have displaced the traditional European shipbuilding nations. These nations view shipbuilding as essential elements to their industrial/jobs policies and are more than willing to support the low prices offered to gain or maintain market share.

The first budget request of the Reagan Administration called for an end to the ship construction subsidy program. While the Congress balked at repealing the program, pending the development of a replacement that recognizes the still valid need to maintain a shipbuilding mobilization base, the Congress concurred with the Administration request to not fund construction-differential subsidy.

STATUS OF SHIPBUILDING, SHIP REPAIR, MERCHANT MARINE WORKFORCE, AND SHIP SUPPLIER INDUSTRIES

An examination of the United States shipbuilding and ship repair industry reveals a sharp decline, and several factors that have caused or contributed to it.

In the industry as a whole, between 1982 and 1986, approximately 52,500 jobs were lost; 76 shipyards and ship repair facilities were closed; and 22 building ways, 17 floating drydocks, 21 graving docks, and numerous plant facilities were lost. In August 1987, at least 15 of the surviving firms were operating under Chapter 11 bankruptcy protection.

A major factor contributing to the industry's decline has been the virtual cessation of commercial ship construction in the United States. In 1980, 69 merchant ships were under construction in 15 American shipyards; today, no merchant ships are under construction in this country. (The last seagoing commercial vessel from an American shipyard, a container vessel launched by Bay Shipbuilding for Sea-Land Corporation, (for use in the protected domestic commerce) was delivered in November 1987.)

The lack of orders for commercial ships is directly attributable to a worldwide surplus of shipyards and merchant ships; the United States' inability to compete in terms of price with most foreign shipyards; little coastal or inland maritime work; the collapse of the offshore energy industry; and the failure of the CDS program. Meanwhile, foreign shipyards often get various forms of government support or have steady government orders that help their yards keep production costs low. Additionally, during the 1980's, U.S. shipyards turned their attention to the building of the 600-ship Navy.

Shipbuilding has tended to follow low-cost labor. American shipyards cannot compete with foreign shipbuilding firms that can use low-cost indigenous labor and cheaper materials or that get substantial support from their governments. Shipbuilding industries have been targeted for priority economic development in many Far Eastern countries. Government help for shipbuilding is also common in Western Europe.

With the demise of commercial ship construction in the United States, naval ship construction and repair are virtually all that remain for the industry. The Navy accounts for 90 percent of the workload in private shipyards today. New construction work is highly concentrated in fewer than a dozen shipyards, with most others in the industry operating at only a small percentage of plant capacity and often losing money in the process. Only the few shipyards with long-term Navy construction programs or those repair yards located within major Navy home port areas appear to have a foreseeable steady workload.

When ships are not built in a shipyard for a long time, vital production worker and managerial skills are lost. Since 1982, over 52,500 production workers have lost their jobs because of shipyard closings or because of workforce reductions in operating shipyards. Between 1987 and 2000, about 11,000 more shipyard worker jobs are expected to be lost. The downturn in the shipbuilding industry has also resulted in a reduction in the number of naval architects and naval architectural firms in this country. Shipyard production workers and experienced shipyard managers are concentrated in the largest shipyards, which are primarily engaged in Navy new construction work. The five largest private shipyards and the eight naval shipyards employ about 65 percent of the total industry workforce.

The West and Gulf Coasts have been affected most by the shipbuilding recession. Since 1982, 15 West Coast firms employing 5,300 production workers and 28 Gulf Coast firms employing 7,000 have closed. Consequently, shipyard manpower has been reduced to critically low levels in these regions.

Fifty to sixty percent of a commercial vessel's construction cost is incurred outside the shipyard for machinery, equipment, and materials. Shipyard suppliers make up a small segment of the industrial base. As the manufacturing segments of the industrial base have withered, so have many of the key segments of the shipyard supplier industry. Here are some examples of how the drop in commercial business has effected ship material and equipment suppliers. Ship engine manufacturing has been cut in half since 1980. The Navy was so worried about the marine gear industry's depressed condition that it restricted procurement of some Navy reduction gears to domestic suppliers. The number of companies that make large marine propellers has fallen from eight to five since 1980. Fortunately, the electronic and electrical components industries are currently healthy. The U.S. steel industry has lost half of its capacity and market share since 1980.

Along with specific industrial capability, the supplier industry has lost the skilled labor, physical facilities, tooling, and support capability critical to specialized manufacturing. Like shipyard managers and skilled shipyard workers, skilled craftsmen cannot be trained overnight.

The Commission on Merchant Marine and Defense projected the status of shipbuilding, ship repair, the merchant marine workforce, and the ship supplier industry in the year 2000. The Commission based its analysis on the requirement to build the ships needed to maintain a 600-ship Navy, to maintain and repair the fleet, and to perform known and projected government and commercial work.

After the early 1990's, only six or seven shipyards will be building Navy ships over 400 feet long. Once the 600-ship program is complete, construction for the Navy will drop to a sustaining level. Unless new programs are initiated, the prospects for commercial shipbuilding will be virtually nonexistent. With

ship construction limited to Navy work and concentrated in only six or seven shipyards, our Nation's ability to quickly build ships, particularly merchant ships, during a war or national emergency will be seriously impaired, if not lost. The United States lacks the shipbuilding and shipyard supplier capabilities needed to meet new construction requirements during mobilization in either 1987 or 2000.

Since the mid-1930's, numerous studies have addressed the issue of the exact defense requirements for the maritime industry. The most recent studies done by the Defense Department, other Government agencies, and the Commission on Merchant Marine and Defense verify that the long-standing problems of U.S.-flag shipping and the shipbuilding and repair industries have adversely affected our national security capabilities.

MAJOR APPLICABLE LAWS

Since the earliest days of our Country, the United States Congress has recognized the significance of a domestic shipbuilding industry. A number of laws have been enacted since the First Congress to preserve, develop, and assist the shipyards of our Nation.

Among the laws currently in force, the one most significant to the shipbuilding industry is known as the Jones Act (section 27, Merchant Marine Act, 1920). Section 27 requires that the transportation of all merchandise between points or places in the United States be on vessels built in the United States, and owned and manned by U.S. citizens. Passengers transported between U.S. ports must also be carried on coastwise-qualified (Jones Act) vessels. The carriage of passengers is also governed by the Act of June 19, 1886 (46 App. U.S.C. 289).

A portion of Government-sponsored foreign trade is reserved for U.S.-flag vessels under three laws. First, the Military Transportation Act of 1904 (10 U.S.C. 2631) requires that 100 percent of the supplies bought for the Armed Forces be transported on U.S.-flag vessels unless the rates charged are "excessive or otherwise unreasonable". Second, Public Resolution 17 (46 App. U.S.C. 1241-1) expresses the sense of Congress that U.S. vessels shall carry cargoes generated through U.S. government loans. Third, the Cargo Preference Act of 1954 (section 901(b) of the Merchant Marine Act, 1936; 46 App. U.S.C. 1241(b)) requires that 50 percent of Government-impelled cargoes be carried on U.S.-flag vessels. These cargoes are Government-owned or -financed; e.g., Food for Peace. The Cargo Preference Act of 1954 was amended in the 99th Congress. Now, 75 percent (phased-in from 50 percent over three years) of agricultural cargoes the United States donates to other countries is required to be carried on U.S.-flag vessels. This compromise exempts cargoes that are generated through loans, credits, and preferential interest rates. Section 901(b) is particularly significant to this hearing because the reservation is for vessels constructed in the U.S. or, if foreign-built, documented as U.S. vessels for at least three years.

Another significant law is the Merchant Marine Act, 1936. This Act provided, for the first time, a workable basis for building and maintaining a privately-owned fleet of merchant vessels. In its Declaration of Policy, the Act sets out the intended goal of having a U.S. merchant marine composed of the best equipped, safest, and most suitable types of vessels constructed in the United States.

Toward this end, the Act established the CDS program. Title V of the 1936 Act authorizes the Maritime Administration to pay construction subsidies to reduce or eliminate the cost disparity that exists between U.S. and foreign shipbuilding prices. This subsidy is the difference between shipbuilding costs in a U.S. shipyard and a reasonable estimate of costs in a foreign shipyard, but may not exceed 50 percent of the domestic costs. To be eligible for CDS, vessels must be built in U.S. shipyards, owned and crewed by U.S. citizens, and operated under the U.S. flag in our Nation's essential foreign commerce.

Title XI of the Merchant Marine Act of 1936 established the Federal Ship Financing Guarantee Program. As originally enacted, title XI authorized the Federal Government to insure the private sector loans or mortgages made to finance or refinance the construction or reconstruction of American-flag, American-built vessels. Title XI was amended in 1972 to provide direct Government guarantees of the underlying debt obligations, with the Government holding a mortgage on the equipment financed. The U.S. Government guarantees full payment to the lender of the unpaid principal and interest on the mortgage or obligation in the event of default by the vessel owners. The title XI program has been self-sustaining during the majority of its life. However, over the past few years, the fund has operated at a deficit, and MARAD has had to borrow money from the Treasury to cover these deficits. The title XI program has a legislative cap of $12 billion -- with $9.5 billion allocated to MARAD, $1.65 billion reserved for use by the Department of Energy in ocean thermal energy conversion vessels and facilities, and $850 million authorized to guarantee the financing of fishing vessels by the National Oceanic and Atmospheric Administration.

The 1970 Merchant Marine Act also established the Capital Construction Fund (CCF). It allows operators to accumulate capital to build, acquire, and reconstruct vessels by deferring Federal income taxes on certain earnings if they are deposited in a capital account and withdrawn for the purpose of constructing or reconstructing ships in U.S. shipyards.

RECENT LEGISLATION

In the 99th Congress, the Committee on Merchant Marine and Fisheries addressed legislation to help the shipbuilding industry. The major proposal would have established a build-and-charter program to construct militarily-useful commercial vessels in U.S. shipyards.

H.J. Resolution 465, the Fiscal Year 1986 Continuing Spending Resolution, set aside $852,100,000 in carry-over funds for the construction of militarily-useful commercial vessels in domestic shipyards for operation by U.S. citizens under U.S. registry in the foreign trade. Congressman Biaggi introduced H.R. 4136, which would have authorized the expenditure of those funds, and would have established a military auxiliary revolving fund within the U.S. Treasury. Chairman Jones (H.R. 4146) and Mr. McKernan (H.R. 3798) introduced related measures.

Testimony received during the March 11, 1986 Subcommittee on Merchant Marine hearing on H.R. 4136 and related bills established that, with the exception of Administration witnesses, support for the concept of the legislation was universal. (See Printed Hearings No. 99-39) The Administration challenged the cost-effectiveness of build-and-charter in comparison to continued expansion of the Ready Reserve Force. The Administration also opposed the legislation because of the potential need for future appropriations to continue the program.

At Full Committee Markup on June 4, 1986, Mr. Biaggi offered an amendment incorporating language similar to that adopted by the Armed Services' Seapower Subcommittee. During Senate debate on H.R. 4515 (providing urgent supplemental appropriations for Fiscal Year 1986), the funds that had been earmarked to capitalize the build-and-charter fund were redirected for other purposes. In Conference, the House receded to the Senate position. No Committee of jurisdiction undertook further action on build-and-charter legislation in the 99th Congress.

In the 100th Congress, several provisions that are important to shipbuilding and ship repair yards were added in Conference to H.R. 1748, the Department of Defense Authorization Act for Fiscal Year 1988 (Conference Report 100-446). The President signed H.R. 1748 on December 4, 1987 (Public Law 100-180).

The first provision prohibits the Coast Guard from procuring vessels built in foreign shipyards. The prohibition currently applies to naval vessels and other military department vessels. The Coast Guard had argued that it was not a military department and that the prohibition did not apply to Coast Guard vessels.

The second provision increases the rate of progress payments on contracts for repairing, maintaining, and overhauling nonnuclear naval vessels when the work is required to be performed in a year or less. The Act changes the rate for small businesses from 80 to 90 percent and the rate for other businesses from 75 to 85 percent.

A third provision authorizes the Secretary of the Navy to enter into long-term leases and charters for militarily-useful tanker vessels constructed in the United States. The law had prohibited the Department of Defense from entering into a lease agreement that extended beyond 18 months. This change is designed to stimulate the shipbuilding industry and save tax dollars.

The phrase "constructed in the United States" means that the vessel's major hull and superstructure components would have to be made in the United States; the vessel would have to be completely assembled domestically; and at least half of the cost of all major items of machinery, including the propulsion plant and components, not an integral part of the vessel's hull or superstructure, would have to be of U.S. origin.

ISSUES

- Is the United States' shipbuilding and ship repair capability sufficient to meet our commercial and military needs during peacetime and in the event of a war or national emergency?
- What level of ship construction is needed to maintain an adequate mobilization base?
- If our shipbuilding and ship repair capability is inadequate, what role should the Federal Government play in strengthening the shipbuilding and ship repair industries?
  - Should Government action include direct subsidies, cargo reservation, and tax incentives?
  - Can existing laws be amended, or is a comprehensive legislative proposal needed?
- In what condition are our allies' shipbuilding and repair industries?
- Have Federal Government procurement policies that emphasize bid price rather than value eroded industrial capacity and capability in the shipbuilding and repair industry?
- What action can industry take to strengthen its position in a highly competitive world market?
- What action can labor take to strengthen our shipbuilding and ship repair capability while maintaining high safety standards?
- How much will the procure-and-charter programs proposed in H.R. 4662 and in the Commission on Merchant Marine and Defense's recommendations cost?
- What will restricting preference provisions to U.S.-built vessels cost?

- Does NOAA plan to replace or rehabilitate its research vessels now that the fleet is reaching obsolescence; i.e., 25 years?

- How does NOAA view the Advanced Technology, Inc. study that resulted in the recommendation that NOAA substantially upgrade 19 vessels and replace four vessels? In light of the Advanced Technology study, can NOAA continue to assert that no fleet replacement plan is needed?

- Should the National Academy of Science's Marine Board study prompt NOAA to assess chartering as a way to meet existing and future fleet requirements?

- Can the existing NOAA fleet meet the requirements of a greatly expanded effort by the United States to survey the Exclusive Economic Zone, offshore territories, and possessions and the drive to gather vital fisheries data and global climate information? What impact will the Administration's proposed deactivation of six ships have on these missions?

- If H.R. 4704 were enacted, how would NOAA implement the legislation? Specifically, what personnel and contracting capabilities would be needed?

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Minority: Kip Robinson/Rusty Johnston, x63492

ENCLOSURES:

(1) Chart: Active U.S. Shipbuilding Base: June 1, 1987
(2) Chart: Number of New Commercial and Naval Ships Under Construction or On Order in U.S. Private Shipyards (1,000 Tons and Larger)
(3) Chart: Commercial Ship Orders Placed With U.S. Private Shipyards (1,000 Tons and Larger)
(4) List of Closed Shipyards (1980-1987)

DISTRIBUTION:

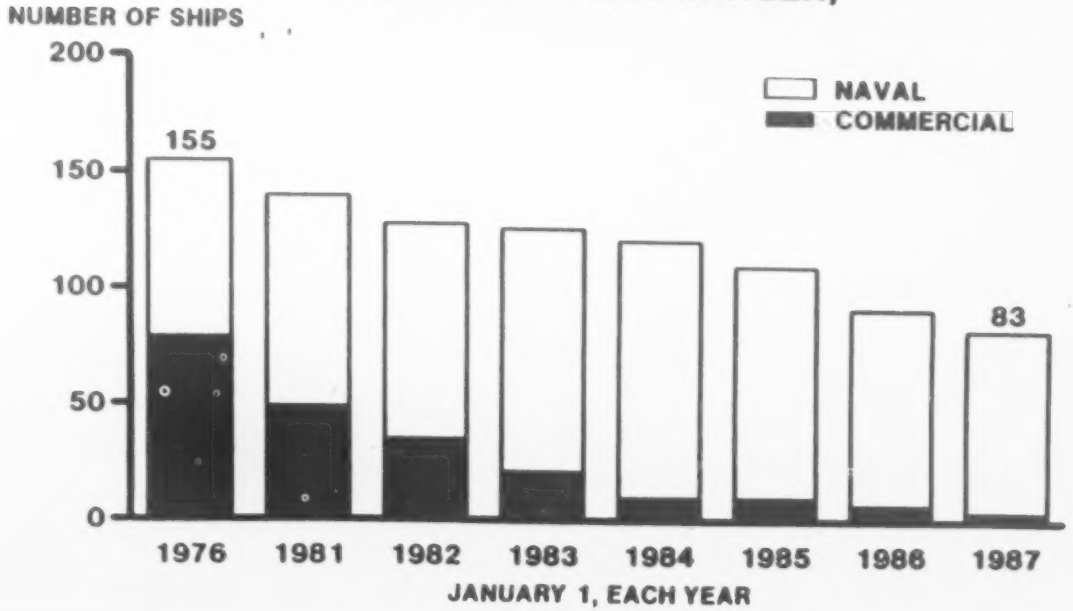
Members, Committee on Merchant Marine and Fisheries

ACTIVE U.S. SHIPBUILDING BASE
JUNE 1, 1987

1. Todd-Seattle
2. Lockheed SB
3. Tacoma Boat
4. Todd-Los Angeles
5. National Steel
6. Marinette
7. Bay SB Corporation
8. Peterson
9. Bath Iron Works
10. R E Derecktor
11. GD-Electric Boat
12. Penn Ship
13. Beth-Sparrows Point
14. Newport News
15. Norfolk SB & DD
16. Tampa Ship
17. ADDSCO Industries
18. Litton-Ingalls
19. Avondale Shipyards
20. McDermott
21. Halter
22. Beth-Beaumont
23. Todd-Galveston
24. Textron
25. Moss Point Marine

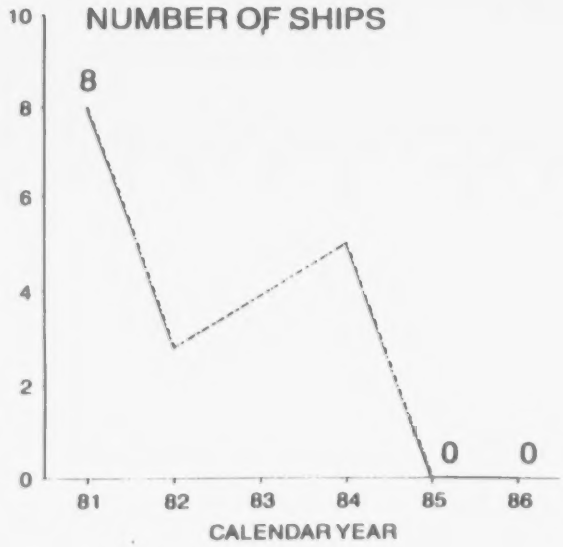
(SOURCE: Shipbuilders Council of America)

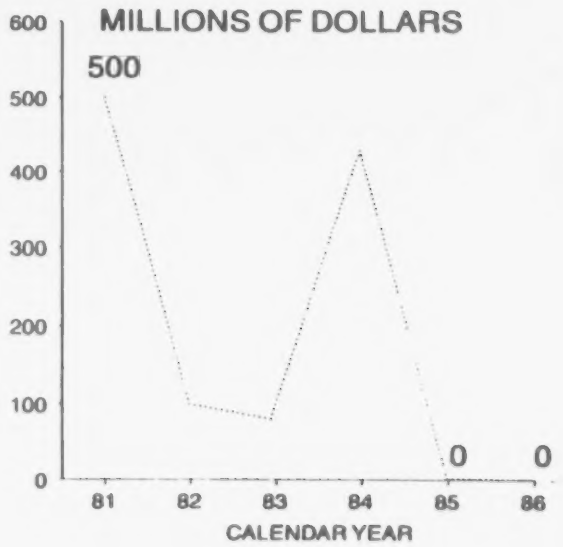
NUMBER OF NEW COMMERCIAL AND NAVAL SHIPS UNDER CONSTRUCTION OR ON ORDER IN U.S. PRIVATE SHIPYARDS (1,000 TONS AND LARGER)



(SOURCE: Shipbuilders Council of America)

COMMERCIAL SHIP ORDERS PLACED WITH U.S. PRIVATE SHIPYARDS (1,000 TONS AND LARGER)





(SOURCE: Shipbuilders Council of America)

LIST OF CLOSED SHIPYARDS (1980 - 1987)

NAME	CLOSED Mon	CLOSED Yr	JOBS Max Prv 3	FACILITIES Build Pos	FACILITIES Dock Pos	FACILITIES L-Pier T-Pier	REMARKS Comments/Information
A. Moe & Company, Inc. 808 North Front Street Philadelphia, PA 19123	JUL	86	40	NONE - -	NONE - -	NONE - -	- - -
Allied Repair Service, Inc. P.O. Box 2236 Norfolk, VA 23501	-	85	355	NONE - -	P400 P100 -	500 1000	May be reopened by new operator; unable to confirm. Had Navy MSR.
American Shipbuilding Co.- CHI - Chicago, ILL	FEB	82	60	NONE - -	G694 - -	850 1300	- - -
American Shipbuilding Co.- LOR - Lorain, OH	-	83	930	G1021 - -	G708 - -	900 1800	- - -
Bergeron Industries, Inc. P.O. Box 39 St. Bernard, LA 70085	-	85	50	W370 - -	M300 F120 -	100 600	- - -
BPC Marine Service, Inc. Pier 5, Bldg. 56, Furman St. Brooklyn, NY 11201	-	86	20	NONE - -	NONE - -	NONE - -	Had MARAD MLSR. - -
Boston Shipyard Corporation 256 Marginal Street East Boston, MA 02128	-	86	565	NONE - -	P670 P523 G256	1020 3111	Had G1176. Sold to a company to manufacture bridge sections only.
Burton Shipyard, Inc. P.O. Box 3636 Port Arthur, TX 77640	-	83	0	M200 - -	F270 - -	- - -	South Gulf Terminal sold. - -
California Shipbldg & DD Co. 1601 Water Street Long Beach, CA 90802	DEC	82	210	NONE - -	F389 F220 F200	326 739	Equipment from this yard sold to Southwest Marine, Inc.
Camden Ship Repair Co., Inc. Point and Erie Streets Camden, NJ 08102	MAY	86	60	NONE - -	M220 - -	NONE - -	Sold to E.J. Brenneman Co. Not used for ship repair. Had Navy MSR.

SOURCE: First Report of the Commission on Merchant Marine and Defense: Appendices, dated 30 September 1987
-- Appendix E: Shipbuilding and Repair Industry and Supplier Base

LIST OF CLOSED SHIPYARDS (1980 - 1987)

NAME	CLOSED Mon	CLOSED Yr	JOBS Max Prv 3	FACILITIES Build Pos	FACILITIES Dock Pos	FACILITIES L-Pier T-Pier	REMARKS Comments/Information
Canal Marine Repairs, Inc. P.O. Box 8097 New Orleans, LA 70182	-	-	45	NONE - -	M100 - -	320 320 -	Had Navy MSR. - -
Chicago Bridge & Iron Co. 10 Washington Avenue Pascagoula, MS 39567	JUL	86	800	NONE - -	NONE - -	650 650 -	Facilities now in care and maintenance. - -
Coastal Drydock & Repair Corp. Bldg. 292, Brooklyn Navy Yard Brooklyn, NY 11205	NOV	86	998	NONE - -	G1092 G1092 G760-2	1400 5740	Also had G465, G349. Company in bankruptcy. -
Delta Shipyard, Inc. P.O. Box 101 Houma, LA 70361	-	85	131	W300 W250 W120	P340 - -	1200 1200	- - -
Dillingham Ship Repair P.O. Box 4367 Portland, OR 97208	JUN	87	500	AVAIL - -	AVAIL - -	AVAIL -	Used facilities at the Portland Ship Repair Yard.
Dravo Corporation 4800 Grand Avenue Pittsburgh, PA 15225	APR	84	1550	W600-X W300-6 W300-5	M300 - -	150 450	Had twelve 600' ways. Company exists; does not build ships.
Dredgemaster International Co. - Hendersonville, TN	SEP	84	0	- - -	- - -	- -	- - -
Florida Ship Repair, Inc. 1825 Knox Road Tampa, FL 33605	-	-	0	NONE - -	NONE - -	NONE -	- - -
Florida Ship, Inc. 2215 N.W. 14th Street Miami, FL 33125	-	84	0	NONE - -	P??? - -	-	Had a 1000 ton capacity floating drydock.
General Dynamics Corp.- Quincy 97 East Howard Street Quincy, MA 02169	JUN	86	6000	G936 G860-2 G850-2	NONE - -	820 4330	Property is for sale. - -

LIST OF CLOSED SHIPYARDS (1980 - 1987)

NAME	CLOSED	JOBS	FACILITIES			REMARKS
	Mon Yr	Max Prv 3	Build Pos	Dock Pos	L-Pier T-Pier	Comments/Information
Geosource, Inc. - Marine Div. 4040 Peters Road Harvey, LA 70059	AUG 84	50	NONE - -	M400 F195 F156	- - -	Also had F138, F120 and F100. -
Golten Ship Repair, Inc. - Portland, ME	- -	18	NONE - -	NONE - -	NONE - -	Had Navy MSR. - -
Guntert & Zimmerman, Inc. P.O. Box 1688 Stockton, CA 95201	- -	150	W400 - -	- - -	- - -	- - -
Halter Marine, Inc. - Chef Hwy 19501 Chef Highway New Orleans, LA 70129	MAR 85	0	W194-3 W225-2 -	NONE - -	- - -	Closed; no work. Some property sold to Textron Marine Ind.
Halter Marine, Inc.- Chalmette P.O. Box 29266 New Orleans, LA 70189	MAR 85	48	W160 W110 -	NONE - -	NONE - -	Sold to an offshore supply co. in '85; not used as a shipyard.
Halter Marine, Inc.- Chickasaw P.O. Box 11338 Chickasaw, AL 36611	AUG 86	1200	W500 W150 -	F220 - -	650 1200 -	Placed in a care and maintenance status in August 1986.
Halter Marine, Inc.- Lockport P.O. Box 278 Lockport, LA 70182	AUG 86	400	W210 W210 W210	NONE - -	230 920 -	Placed in a care and maintenance status in August 1986.
Halter Marine, Inc.-Madisonvle Highway 21 Madisonville, LA 70447	AUG 86	630	W350 W200 W200	NONE - -	260 460 -	Placed in a care and maintenance status in August 1986.
Hawaiian Tuna Packers P.O. Box 238 Honolulu, HI 96809	JUN 86	419	NONE - -	NONE - -	220 220 -	Company in business but does not repair ships or boats.
Hidden Harbor Boat Works, Inc. 6111 East 21st Street Bradenton, FL 34203	- 85	42	NONE - -	NONE - -	NONE - -	Small boat builder only. -

LIST OF CLOSED SHIPYARDS (1980 - 1987)

NAME	CLOSED	JOBS	FACILITIES			REMARKS
	Mon Yr	Max Prv 3	Build Pos	Dock Pos	L-Pier T-Pier	Comments/Information
Horne Brothers, Inc. 2408 Harbor Road Newport News, VA 23607	DEC 83	414	NONE - -	NONE - -	665 1256	Land sold. Some assets bought by Newport News Shipbuilding & DD Co.
Hudson Engineering Company 520 York Street Elizabeth, NJ 07201	- 85	141	NONE - -	NONE - -	NONE - -	- - -
Hudson Shipbuilders, Inc. P.O. Box Q Pascagoula, MS 39567	APR 85	624	W235-2 W130-2 W185	NONE - -	300 580 -	- - -
Hunt's Steelship, Inc. Route #4, Box 76 Pine Bluff, AR 71602	JUN 86	0	W120 - -	NONE - -	110 140 -	Had only 12 employees in July 1985. -
Ingalls Marine, Inc. P.O. Box 368 Decatur, AL 35602	- 83	90	NONE - -	G496 - -	500 500 -	Facilities now in care and maintenance.
Inland Marine Constructors Inc P.O. Box 5516 Evansville, IL 47715	JUN 86	50	W200 - -	NONE - -	NONE - -	All facilities and assets sold. -
Ira S. Bushey & Sons, Inc. - Brooklyn, NY	- 81	130	NONE - -	F455 F300 -	786 4086 -	- - -
Jeffboat, Inc. P.O. Box 610 Jeffersonville, IN 47130	JUL 86	871	W500 - -	F200 F200 -	2100 4980 -	Facilities now in care and maintenance. -
Kaiser Steel Corp. - Napa P.O. Box 390 Napa, CA 94559-0390	JUN 86	1696	NONE - -	G383 G300 G268-2	500 500 -	- - -
Levingston Shipbuilding Co. P.O. Box 968 Orange, TX 77631-0968	- 85	1450	W1100 W260-2 W180	NONE - -	820 1850 -	Has been in care and maintenance since 1985.

LIST OF CLOSED SHIPYARDS (1980 - 1987)

NAME	CLOSED	JOBS	FACILITIES			REMARKS
	Mon Yr	Max Prv 3	Build Pos	Dock Pos	L-Pier T-Pier	Comments/Information
Lockport Marine Company 5555 N. Channel Ave., Bldg.#10 Portland, OR 97217	JUL 87	300	AVAIL - -	AVAIL - -	AVAIL - -	Used facilities at the Portland Ship Reapir Yard.
Luther's Marine & Industrial 3505 Franklin Street Chesapeake, VA 23324	OCT 86	12	NONE - -	NONE - -	NONE - -	Survey form returned. Phone disconnected. -
Marine Concrete Structures Inc 2030 St. Charles Avenue New Orleans, LA 70130	JUN 85	0	NONE - -	G350 - -	- - -	Yard located in Port Bienville, MS. -
Marine Ways Corporation P.O. Box 10464 Portland, OR 97210	- -	120	NONE - -	M??? - -	- - -	Had a small marine railway. -
Maryland Shipbuilding & DD Co. P.O. Box 537 Baltimore, MD 21203	JUL 84	1737	W600 - -	F775 F650-2 F200	987 5106	Had Navy MSR. Now used by Toyota Motors for import operations.
Matton Shipyard, Inc. P.O. Box 645 Cohoes, NY 12047	APR 83	80	W150 - -	NONE - -	250 375 -	- - -
Maxon Marine Industries, Inc. P.O. Box 69 Tell City, IN 47586	FEB 86	105	W??? - -	M??? - -	- - -	Had 6 building ways and a 500 ton capacity marine railway.
McDermott Int'l - Gulfport SY P.O. Box 2249 Gulfport, MS 39503	- 85	0	NONE - -	F160 - -	- - -	- - -
McDermott Int'l-New Iberia SY P.O. Box 128 New Iberia, LA 70560	- 85	0	NONE - -	F180 F160 -	- - -	- - -
Merritt Ship Repair Company - Oakland, CA	- 81	80	NONE - -	F320 - -	500 1155 -	- - -

LIST OF CLOSED SHIPYARDS (1980 - 1987)

NAME	CLOSED	JOBS	FACILITIES			REMARKS
	Mon Yr	Max Prv 3	Build Pos	Dock Pos	L-Pier T-Pier	Comments/Information
Misener Industries, Inc. P.O. Box 13625 Tampa, FL 33681	- 85	209	W600 - -	F210 - -	450 1350 -	- - -
Munro Drydock, Inc. 1 Winnisimmit Street Chelsea, MA 02150	DEC 84	78	- - -	- - -	- - -	All facilities sold. Had Navy MSR. -
Paducah Marine Ways, Inc. P.O. Box 2305 Paducah, KY 42001	JAN 84	0	NONE - -	F200 - -	- - -	New construction equipment scrapped; repair equipment sold.
Perry Shipbuilding Company P.O. Box 1318 Erie, PA 16512	NOV 86	130	NONE - -	NONE - -	1000 5300 -	Property sold to land developer in Nov. '86.
Port Richmond Shipyard - Richmond, CA	- 85	200	NONE - -	G744 G583 G571-3	1560 2100 -	- - -
River & Offshore Services P.O. Box 474 Violet, LA 70092	- 86	0	NONE - -	NONE - -	1200 2000 -	Maintains lay-berths only. No longer does any repair work.
RMI, Inc. 1313 W. 24th Street National City, CA 92050	OCT 86	250	NONE - -	NONE - -	NONE - -	Assets liquidated via Chapter 7 bankruptcy. Had Navy MSR.
Rumsey Marine & Drydock Co. Route 3, Box 6 Wilmington, NC 28405	- 80	52	W200 - -	F200 - -	450 900 -	Formerly North Carolina Shipbuilding & Drydock Co.
Savannah Shipyard Company P.O. Box 787 Savannah, GA 31402	SEP 84	357	W350 W350 -	G520 - -	362 793 -	Building ways have not been used since prior to 1980. Had Navy MSR.
Sea-Tac Alaska Shipbldg. Corp. 1112 Alexander Avenue Tacoma, WA 98421	- 83	76	W250 W150 -	F215 - -	175 175 -	- - -

LIST OF CLOSED SHIPYARDS (1980 - 1987)

NAME	CLOSED	JOBS	FACILITIES			REMARKS
	Mon Yr	Max Prv 3	Build Pos	Dock Pos	L-Pier T-Pier	Comments/Information
Sherman Shipyard, Inc.	- -	20	NONE	NONE	NONE	-
-			-	-	-	-
Panama City, FL			-	-		-
Teh Tung Steamship Company	MAY 84	30	NONE	F600	840	-
-			-	-	840	-
Orange, TX			-	-		-
Texas Gulfport Shipbuilding Co	JUN 85	200	W550	F325	590	Was a subsidiary of
P.O. Box D			W400	F325	1270	Levingston Industries,
Port Arthur, TX 77640			-	-		Inc.
Texas Shipbuilding Company	- 80	204	W450	NONE	300	-
P.O. Box 24787			W265	-	525	-
Houston, TX 77013			-	-		-
Thomas Knutson Shipbldg. Corp.	- -	35	W300	M???	128	Had 60 and 40 capacity
East Shore Road			-	M???	450	marine railways, and a
Halesite, NY 11743			-	-		Navy MSR.
Todd Shipyards Corp.- Alameda	- 83	550	NONE	F900	800	Todd moved to the
-			-	F523	2485	former Bethlehem Steel
Alameda, CA			-	-		yard in San Francisco.
Todd Shipyards Corp.- Houston	JUL 83	392	W500	F600	1844	Remains in a care and
P.O. Box 9666			-	-	3200	maintenance status.
Houston, TX 77015			-	-		-
Todd Shipyards Corp.-New Orlns	JAN 86	350	NONE	F544	1725	Facility is for sale.
P.O. Box 6158			-	F544	3756	-
New Orleans, LA 70174			-	F285		-
Tracor Marine Inc.	MAR 87	280	NONE	S360	780	Had Navy MSR.
P.O. Box 13107 Everglades Sta.			-	F300	1305	-
Fort Lauderdale, FL 33316			-	F270		-
Trans Ocean Shipyard	- -	0	NONE	NONE	70	-
P.O. Box 4197			-	-	140	-
Brownsville, TX 78520			-	-		-

LIST OF CLOSED SHIPYARDS (1980 - 1987)

NAME	CLOSED	JOBS	FACILITIES			REMARKS
		Max	Build	Dock	L-Pier	
	Mon Yr	Prv 3	Pos	Pos	T-Pier	Comments/Information
Triple A South 3350 Main Street San Diego, CA 92113	OCT 86	400	NONE - -	F389 - -	NONE - -	Equipment transferred to San Francisco. In care and maintenance.
Twin City Shipyard, Inc. P.O. Box 43632 St. Paul, MN 55164	MAY 86	130	W300 - -	M225 F100 -	1200 1650 -	- - -
Weaver Shipyards P.O. Box 1487 Orange, TX 77630	JUN 86	30	W200-5 W200-5 -	M200 M180 F180	220 730	Owner said he would write a letter to Secretary Dole.
Wiley Mfg. Co.- Equip.Sys.Div. P.O. Box 97 Port Deposit, MD 21904	SEP 84	526	W390 W340 -	NONE - -	NONE - -	- - -
Willamette Iron & Steel Co. 2800 N.W. Front Avenue Portland, OR 97210	- 81	430	NONE - -	F1000 F763 F550-2	1200 1200	- - -
Zidell Explorations, Inc. 3121 S.W. Moody Avenue Portland, OR 97201	AUG 84	0	NONE - -	NONE - -	NONE - -	Yard equipment is for sale. -

PREPARED STATEMENT OF VICE ADMIRAL WALTER T. PIOTTI, JR., USN, COMMANDER, MILITARY SEALIFT COMMAND (DEPARTMENT OF DEFENSE), BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE, JUNE 14, 1988

Mr. Chairman and members of the Subcommittee on Merchant Marine of the House Merchant Marine and Fisheries Committee, I am pleased to have the opportunity to appear today and discuss H.R. 4662, which would establish a procure and charter program for militarily useful merchant-type ships. I will not offer testimony on H.R. 4704. While we work with NOAA on matters of mutual interest, the Department of Defense has no responsibility in the matters of this bill.

The Military Sealift Command is the single manager operating agency for ocean transportation (Sealift) within the Department of Defense. Fulfilling that mission is dependent on a healthy, efficient merchant marine, and we bring to this hearing a vital interest in H.R. 4662. MSC is dependent on U.S. maritime industry ships, people and industrial facilities being readily available at all times in order to successfully carry out its taskings.

To understand the close working relationship between the U.S. Navy's Military Sealift Command and the U.S. maritime industry, it is necessary to understand the way in which MSC carries out its mission.

The Military Sealift Command is charged with the responsibility to move the vast majority of all material and supplies required by our armed forces in peace and war. The U.S. flag merchant marine is indispensable to the fulfillment of this mission as all peacetime cargo and the majority of the wartime cargo is carried by commercial shipping.

Strategic sealift requires the capacity to deploy and sustain military forces whenever and wherever needed--as rapidly and for as long as operational requirements dictate. This requirement demands national commitment and is especially vital in today's world where the fragile peace we now enjoy is capable of spontaneous eruption at any time and where the forces of this nation will remain in the forefront of every struggle to maintain world peace.

The U.S. Navy stands ready and capable of responding to any crisis or contingency that may erupt anywhere in the world. Our ability to respond--particularly to a sustained contingency--is dependent upon the strength and readiness of a strong merchant marine. More than 95 percent of dry cargo and 99 percent of petroleum required to support our forces must be carried by ship. Thus, the nation's overall ability to carry out the national strategy is inextricably linked to the strength of our maritime fleet and the industrial base which supports it.

As I testified earlier this year, 40 of our 42 allies are overseas, and a 1/2 million deadweight ton shortfall in required dry cargo shipping is projected after 1992. Similar shortfalls exist in our tanker inventory where the projected shortfall to meet military requirements will grow to 35 handy-sized equivalent tankers during the same period.

The containerization of cargo and the construction of more commercially viable larger ships have also influenced strategic sealift readiness. The divergence between what is commercially viable and what is optimal militarily is increasing. Thus, many of the characteristics that make ships less than economical or competitive for commercial purposes are the very characteristics that enhance their military utility. As a result, we are not only faced with a sharp decline in the number of U.S. flag merchant ships and crews, but must also contend with a pronounced shift toward commercially competitive but less militarily useful ships.

H.R. 4662 at once addresses the shortfall of ships and the maintenance of a viable industrial base, but there is a very significant cost associated with the features contained in the bill. While we are supportive of any effort that maintains the industrial base for reasons of sealift readiness, it should not be at a cost disproportionate to its advantages. We believe any program or bill put forward with the purpose of bolstering any segment of the maritime industry must be able to stand alone and withstand a cost benefit analysis. In regard to H.R. 4662, we do not believe this bill would withstand such an analysis.

The procure and charter program envisioned in H.R. 4662 is similar to programs proposed in 1985. At that time, the Navy testified that for such vessels to be commercially viable in international trade, the charter rate would have to be extremely low, probably only a token amount of its amortized capital cost. The over capacity in world shipbuilding and resultant over tonnage which existed in 1985 continues to exist and will for the foreseeable future. Accordingly, it would be impossible for these ships to be competitive even at the minimum cost recovery charter rates proposed in the bill. Further, since procure and charter ships are built for speculative charter vice firm long term charters as in a build and charter program, the probability of recouping the capital costs in the current and projected over-tonnage world market would seem slight.

As proposed, H.R. 4662 would effectively diminish the peacetime sealift capacity and competitive bases of the Department of Defense since half of the ships in the proposed program could be built in foreign yards and thus would not be eligible for carriage of preference cargo. Moreover, existing U.S. flag foreign built vessels would be ineligible to carry preference cargo after FY 1992. In aggregate the bill would significantly increase costs to all government users of ocean transportation.

The U.S. Navy is in partnership with the U.S. maritime industry, and we are interested in the condition of each segment of that industry. Since the early 1980s, the Department of the Navy has invested more than $5 billion to bolster our overall strategic sealift capability. This committee is well aware of these programs which include the establishment of the Ready Reserve Force, the Maritime Prepositioning Ships program, the Fast Sealift Ships program and various other sealift readiness and sealift enhancement programs.

These were stop gap measures designed to meet the warfighting shortfall and measures which it was hoped would permit the industry the time to recover from the worst worldwide recession in shipping in 50 years. Regrettably, the worldwide

maritime industry recession continues, and new measures must be found to resolve this condition; however, we do not believe high cost procure and charter ships subsidized by artificially high government freight rates is the answer. Rather, we favor encouraging the entire U.S. maritime industry to improve its aggregate competitive stature in the worldwide market. We believe this, together with the Administration's submitted ODS reform legislation, will go far in restoring the U.S. maritime industry's economic health and viability.

Mr. Chairman, we stand ready to work with the Congress and the maritime industry toward the revitalization and maintenance of a healthy shipbuilding and repair base, but the current austere funding environment does not allow support of programs that degrade either our competitive stature or our warfighting capability.

PREPARED STATEMENT OF CAPTAIN GILBERT L. KRAINE, USCG (RET.), ADVANCED TECHNOLOGY, INC., BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE, JUNE 14, 1988

Mr. Chairman and Members of the Committee:

I would like to thank you for this opportunity to address the committee on the two proposed bills which you have under consideration, HR 4704 for the modernization and expansion of the NOAA Fleet and HR 4662 to revitalize the maritime industry in the United States.

In May 1987, Advanced Technology, Inc. (ATI) was awarded a contract by the National Ocean Service (NOS) of the National Oceanic and Atmospheric Administration (NOAA) to assess the condition of the 23 ships of the NOAA Fleet and develop an Upgrade Plan. I was the ATI program manager for the work due to my background and prior experience.

I graduated from the U.S. Coast Guard Academy in 1950 with a Bachelor of Science in Engineering. Subsequently, I received a Master's degree in Naval Architecture and Marine Engineering and a Naval Engineer's degree from the Massachusetts Institute of Technology in 1958. I also hold an MBA in Finance from the Old Dominion University. During my Coast Guard career, I held a variety of positions directly responsible for the design, construction, alteration, maintenance and repair of Coast Guard cutters and commercial vessels. Since retiring from the Coast Guard, I have held management positions at several shipyards before joining Advanced Technology, Inc.

Currently, in addition to the work for NOAA, I have been engaged in several projects for the Naval Sea Systems Command (NAVSEA) involving the design and construction of various ships. This includes the introduction of an innovative, twin skeg hull design and the application of improved productibility techniques to the design process which I will describe in more detail later.

In assessing the NOAA fleet and developing the upgrade plan, we used the following approach, procedures and methods. I headed up a team of engineers with marine, structural, electronic and electrical engineering backgrounds as applied to ship design, construction, operation, maintenance and repair. We visited the National Ocean Service (NOS) headquarters, the Atlantic and Pacific Marine Centers, and the ships of the NOAA fleet. We interviewed the personnel involved in vessel maintenance and operations, and the key shipboard personnel including the Commanding Officer, Executive Officer, Chief and Assistant Engineers, electronic technicians, boatswains, stewards and scientific personnel. We inspected the records for each ship and extracted pertinent data regarding past problems and casualties, repairs, actual costs, and planned future maintenance activities.

We also visited and physically inspected every ship with the exception of the MURRE II. We entered every accessible space and inspected all major systems and items of machinery and equipment. The inspection was performed at dockside. Generally, we were not able to observe the ships underway however, we did ride several of the ships.

Based upon our visits, interviews, inspections and file searches, we developed a detailed assessment of the condition of each ship. The assessment was then analyzed to identify the work which would be required to extend the life of the ship, improve the ability of the ship to perform its mission, and increase the ship's productivity or efficiency. The analysis addressed each item of equipment or machinery. A proposed repair or replacement plan was developed and the cost of the work was estimated. Equipment repair was the preferred approach except when replacement was required by advanced deterioration, the mission criticality of the item, the availability of replacement parts or when overhaul costs exceeded replacement costs.

In the analysis phase, we developed a complete listing of the work required to extend the life of each ship or improve its capability to perform its mission. This list became the description of the upgrade project for that ship.

The various upgrade projects for the ships were then scheduled for performance over the period from Fiscal Year 1990 through 1999.

There are some caveats on the use of this study.

First, we were not tasked to review the scientific instrumentation in use aboard the ships. We did include laboratories and scientific spaces but did not address the need for upgrade of the scientific equipment in the spaces except for navigation and communications equipment used for normal ship operations.

Second, we were directed to assume that the current operational profile for each ship would continue in the future. We did not address the operational requirements for the ship, nor the possible need for additional ships to meet future missions.

Finally, all dollar estimates were based upon 1987 dollars.

We evaluated the NOAA fleet as being in better condition than commercial vessels of the same age, especially considering the demanding operational schedules and the limited maintenance funding. There are many hardworking and dedicated people in NOAA, both ashore and aboard the ships, who have performed admirably in the maintenance and repair of the ships over many years. NOAA's decentralized approach to maintenance is highly dependent on the competence of the individuals. However, there are some problem areas and problem ships.

The basic problem facing the NOAA fleet is "block obsolescence". Twenty of the 23 ships were built in the 1960s and only one since then. Ships have a normal life expectancy of 20 to 25 years. By that age, the obsolescence of some of the installed equipment and machinery, deterioration of systems and structures, and technological advances generally will require major maintenance efforts to continue the satisfactory operation of a ship. The bulk of the NOAA fleet is at that stage now. NOAA's diligent maintenance programs have helped to keep the vessels in a condition which makes the majority of them excellent candidates for service life extension programs. It is therefore our recom- mendation that such a program be undertaken immediately. Failure to initiate an upgrade program now may result in replacement being the only option left open to NOAA in the future.

In assessing the NOAA fleet, we did identify four ships which we recommended for replacement rather than a full, service life extension, upgrade program. These ships are the:

ALBATROSS IV
TOWNSEND CROMWELL
JOHN N. COBB
SURVEYOR

A limited upgrade project was developed for each of these four ships to correct various immediate problems and keep them operational until they are replaced. In addition, a design and construction plan was included in the Upgrade Plan for the replacements for these four ships.

A proposed schedule of upgrade projects is included in the report. The projects are divided between major and minor efforts with one major upgrade scheduled each year, alternating between Marine Centers. One or more minor upgrades are also scheduled each year. The total cost of the program was estimated at $168 million over a 10-year period with $83 million for upgrades and $85 million for replacements.

The Upgrade Plan was based upon our best engineering judgment on the information provided to or obtained by us. Changes in and/or additions to the plan may be the result of NOAA's incorporation of other considerations.

If I might take a few minutes more of the committee's time, I would also like to comment on the proposed bill HR 4662.

As I mentioned, the current condition of the NOAA fleet is heavily dependent upon the competency of the operating and maintenance personnel. These personnel have been drawn from the pool provided by our marine industry. Unfortunately, our marine industry -- the ships, the shipyards, the personnel -- is fast wasting away. If we do not take action to revitalize the marine industry, such as is contained in this bill, there will be no qualified personnel to operate our ships, no shipyards to build new ships, and indeed few commercial ships flying the U.S. flag. There will be no pool of experienced personnel from which NOAA nor any other agency will be able to meet their needs.

One of the key problems facing the marine industry is that it comes head-to-head with foreign competition, many of whom receive their government's support. Without some form of government support there is no way our industry can compete and survive. The support can come in various ways -- protected trade rights, operating subsidies, construction differential subsidies, cargo preference measures -- but it must be there. Further, the support must be well thought out and implemented with intelligence. For example, there is little gain to the industry and the government to provide cargo preference and then award the contracts in a way which encourages operation of WWII vintage ships.

Beyond government support, there is also a need for the marine industry to take responsibility for its own future.

There are a number of things that the industry can do.

Focusing on the ship design and construction segments of the industry, we have been unable to compete in the international market for many years. As a result, we have fallen behind the rest of the world in the design and construction of ships. However, there are a number of improvements which we can now make in the design of our ships. It is possible to design ships which perform better and are less costly to build. There are also valuable lessons in ship construction practices we are still learning.

For several years now, I have been privileged to work with a colleague who has had a lifetime of experience in the Swedish shipbuilding industry. Sigurdur Ingvason is a naval architect and master shipbuilder. Born in Iceland, educated in Denmark, his career was spent in the shipyards of Sweden. He was the Chief Engineer at the Kockums shipyard and the Managing Director of the Arendal shipyard during the tanker boom and its heyday of rapid construction of highly producible ships. During this period, Arendal established records of productivity with the construction of nine 150,000-ton tankers per year from a shipyard with a total work force of 4000.

In recent years, Mr. Ingvason, as an international consultant, has continued to develop his innovative concepts of producible ship designs. He discovered that it is possible to design a hull which is both easier to build and also improves hydrodynamic performance. One of these concepts involves the application of unique skegs and surface piercing bulbous bows. Over the past 3-years, we have introduced this hull design approach to the Naval Sea Systems Command. We applied the hull design to the T-AO 187 Fleet Oiler design and conducted a series of model tests to confirm the predicted performance.

The results of the model tests were impressive. Our twin skeg variant required 14 percent less horsepower at the design speed of 20 knots than the current T-AO hull form.

The reduction in required horsepower allows for savings in both operating and construction costs. The engines and associated machinery can be reduced in size. That in turn decreases both the cost of buying the machinery and the cost of operating the ship over its life cycle.

Furthermore, the tests confirmed that the twin skeg design achieved the improved hydrodynamic performance with associated improvements in other areas of performance. Seakeeping and maneuvering were both improved, and propeller induced vibrations were reduced by 50 percent.

As impressive as these hydrodynamic tests results were, however, they do not give the whole story. The hull form itself is designed for low cost construction. Costly double curvature plating is minimized. Straight line sections with simple radius curves combined with carefully placed knuckles are used in the design.

A hull form is one thing, a ship design another. To demonstrate that the hull form could be applied to the T-AO 187 design without loss of any capability, we prepared a baseline design of a twin skeg variant design of the T-AO 187 and submitted it to NAVSEA for a formal evaluation. The thorough evaluation, covering a period of over 6 months, concluded that the resulting design was not only feasible but preferable in many respects. An independent analysis confirmed the estimated 25 percent reduction in hull construction costs resulting from the improvements in producibility of the design.

The construction cost savings flow directly from the "design to build" approach applied to the ship design. This approach requires the ship designer to consider the construction problem throughout the design process. For best results, it must be applied from the earliest stages of the design and be in the designer's mind throughout the design development. A simple enough concept which is used in many industries, but one we have neglected in the marine industry. All too often our ship designers work in an atmosphere and location divorced from the real world of ship construction. Producibility is thought of as something for the shipbuilder to do after he is awarded the contract. Unfortunately, by then it is too late to gain the greatest savings.

Another aspect of "design to build" should be noted. It requires a ship designer to know not only how to design a ship but also how to build it. There are only a limited number of our naval architects and marine engineers who have the requisite knowledge and experience of the entire process from preliminary design through the actual construction. That pool of talent is rapidly shrinking. We must encourage our young people to enter the ship-building industry, and we need to train our young naval architects and engineers. We need to take them out of their offices and put them out in the yard and on the shop floor. It will make a world of difference in their next design effort.

Of course, if we are not building ships, there will be no shop floor on which to train them. With no commercial shps under order as is presently the case, there are no construction programs on which to learn, to improve, and to train the younger personnel. In fact, there is no reason for our young people to enter the shipbuilding industry. Without a shipbuilding industry, we can not expect to remain a maritime power.

I would like to express my support for HR 4662 for the construction of new commercial type ships in US shipyards. Naval construction programs are not enough. They provide neither sufficient volume to keep enough of the industry alive nor expertise in the low-cost commercial construction techniques needed to compete in the international market. Without programs such as HR 4662 there will be no shipyard, no production floor at which to train our future shipyard managers and ship designers. There is not much time left in which to act. As our shipyards have closed or cut back, we have lost the engineers and workers. They have found other jobs in other industries and the young are not entering the industry.

If we are to continue to have a merchant fleet and the supporting infrastructure of shipyards, equipment manufacturers and experienced personnel, we must act now.

Mr. Chairman, I applaud your efforts and those of the members of this committee and your staff. I sincerely hope that you will be successful in passing legislation to revitalize the U.S. maritime industry. If you don't succeed, however, I am afraid that we won't have much of an industry left in just a few more years.

I want to thank the committee for this opportunity to express my views on these two bills, which I feel are of vital importance to the future of our nation.

Source: Maritime Administration, June 20, 1988

INSERT 1

Overview Statement on the
Private Shipyard Mobilization Base

In October 1982, 110 private shipyards were jointly identified by Navy and the Maritime Administration (MARAD) in the Shipyard Mobilization Base Analysis (SYMBA) study as meeting the criteria for inclusion in the U.S. shipyard mobilization base (Attachment 1). These criteria require the capability to "construct, repair (with drydocking), and/or topside repair ships 400' feet in length or over." Additional parameters of a dedicated facility and adequate water access are also applied.

Since 1982 there has been increased scrutiny of this industry segment by many portions of the government concerned about the effect of its decline on our national defense posture. This has resulted in an increasingly detailed, annual re-evaluation by MARAD of all information available on the private U.S. ship construction and repair industry. In October 1987, MARAD determined in its annual update of the shipyard mobilization base that 116 private U.S. facilities met the criteria for inclusion (Attachment 2).

Although the number of mobilization yards has increased since establishment of the original base in 1982, this does not represent an increase in capability. In contrast, we have seen over the last five years a decline in its production workforce from 112,000 in 1982 to about 80,000 in 1987. In addition, some major construction yards have closed and been replaced in the base by a larger number of small repair firms. The current trend towards a base composed of a larger number of smaller repair yards and fewer major ship construction facilities, the continuous decline of associated production workers, the loss of critical, hard-to-replace skilled labor, and the erosion of the essential supplier base are all factors which will impact significantly the industry's capability to support any national defense effort.

As can be expected, the shipyard mobilization base is a dynamic industry segment; facilities are added or deleted as their capabilities change. At any point in time the shipyard mobilization base could be comprised of differing sets of yards. For this reason, MARAD and Navy recently agreed to jointly evaluate the industry and publish in October of each year one set of mobilization yards. The Commission on Merchant Marine and Defense is also aware of and participating in this effort. The first joint base will reflect October 1988 information.

Source: Maritime Administration, June 20, 1988 Attachment I

PRIVATE SHIPYARD MOBILIZATION BASE
(OCTOBER 1982)

1. ADDSCO Industries, Inc. - Mobile, AL (3)
2. Allied Repair Service - Norfolk, VA (1)
3. American Marine Corporation - New Orleans, LA
4. American Shipbuilding - Lorain, OH (1)
5. Atlantic Marine, Inc. - Fort George Island, FL (3)
6. Avondale Industries, Inc. - New Orleans, LA (3)
7. Bath Iron Works Corporation - Bath, ME
8. Bath Iron Works Corporation - Portland, ME
9. Bay Shipbuilding Corporation - Sturgeon Bay, WI
10. Bender Shipbuilding & Repair Co., Inc. - Mobile, AL
11. Bethlehem Steel - Baltimore, MD (1)
12. Bethlehem Steel Corporation - Beaumont, TX
13. Bethlehem Steel Corporation - Sparrows Point, MD
14. Bludworth Bond Shipyard - Houston, TX
15. Boland Marine Manufacturing - New Orleans, LA
16. Boston Graving Dock Corporation - East Boston, MA (3)
17. Boston Marine Industrial Park - Boston, MA
18. Braswell Shipyards - Charleston, SC
19. Buck Kreihs Company - New Orleans, LA
20. Caddell Drydock & Repair Company - Staten Island, NY
21. Campbell Industries - San Diego, CA
22. Coastal Drydock & Repair Corporation - Brooklyn, NY (1)
23. Coastal Iron Works - Corpus Christie, TX
24. Colonna's Shipyard, Inc. - Norfolk, VA
25. Continental Maritime of San Francisco, Inc. - San Francisco, CA (3)
26. Delta Shipyard - Houma, LA (1)
27. Detyens Shipyard - Mt. Pleasant, SC
28. Dixie Machine Welding - New Orleans, LA
29. Fraser Shipyards - Superior, WI
30. Galveston Shipbuilding - Galveston, TX (1)
31. General Dynamics Corporation - Electric Boat - Groton, CT
32. General Dynamics Corporation - Quincy, MA (1)
33. General Ship Corporation - East Boston, MA
34. Geosource, Inc. - Harvey, LA (1)
35. Gulf-Tampa Drydock Company - Tampa, FL
36. Gunderson, Inc. - Portland, OR (1 and 3)
37. Halter Marine, Inc. - Chickasaw Division - Chickasaw, AL (1)
38. Halter Marine, Inc. - Equitable Division - New Orleans, LA
39. Hendry Corporation - Tampa, FL
40. Hoboken Shipyards - Bayonne, NJ (1 and 3)
41. Honolulu Shipyard, Inc. - Honolulu, HI (3)
42. Horne Brothers - Newport News, VA (1)
43. Houston Ship Repair - Houston, TX (3)
44. Hudson Engineering - Bayonne, NJ (1)
45. Hunters Point Naval Shipyard - San Francisco, CA (3)
46. Jackson Engineering - Staten Island, NY (1)
47. Jacksonville Shipyards - Jacksonville, FL
48. Jonathan Corporation - Norfolk, VA
49. Kaiser Steel Corporation - Napa, CA (1)
50. Lake Union Drydock - Seattle, WA
51. Larson Boat Shop - Terminal Island, CA
52. Levingston Shipbuilding - Orange, TX (1)
53. Litton/Ingalls Shipbuilding Division - Pascagoula, MS
54. Lockheed Shipbuilding Company - Seattle, WA (1)
55. Marathon LeTourneau Company - Brownsville, TX
56. Marine Power & Equipment Yard No. 4 - S. Seattle, WA
57. Marinette Marine Corporation - Marinette, WI
58. Maryland Shipbuilding & Drydock - Baltimore, MD (1)
59. McDermott Shipyard - Morgan City, LA
60. Metal Trades, Inc. - Hollywood, SC
61. Metro Machine Corporation - Norfolk, VA
62. Misener Industries - Tampa, FL (1)
63. Moon Engineering - Norfolk, VA
64. Munro Drydock - Chelsea, MA (1)
65. National Steel & Shipbuilding Co. - San Diego, CA
66. Newpark Shipbuilding - Houston, TX
67. Newport News Shipbuilding & Drydock Company - Newport News, VA

68. Newport Offshore, Ltd. - Newport, RI
69. New York Shipyard Corporation - Brooklyn, NY (3)
70. Norfolk Shipbuilding & Drydock Corporation - Norfolk, VA
71. Pacific Drydock & Repair Co. - Oakland, CA
72. Pacific Fisherman, Inc. - Seattle, WA (3)
73. Pacific Marine - Honolulu, HI (1)
74. Pennsylvania Shipbuilding Company - Chester, PA
75. Perth Amboy Drydock Company - Perth Amboy, NJ
76. Peterson Builders - Sturgeon Bay, WI
77. Portland Ship Repair Yard - Portland, OR
    - Cascade General, Inc.
    - Northwest Marine Iron Works
    - West State, Inc.
78. Port Richmond Shipyard - Richmond, CA (1)
79. Promet Marine Services Corporation - E. Providence, RI
80. Puerto Rico Drydock & Marine Terminals - San Juan, PR
81. Reynolds Shipyard Corporation - Staten Island, NY
82. RMI, Inc. - San Diego, CA (2)
83. Robert E. Derecktor of Rhode Island, Inc. - Middletown, RI
84. Rodermond Industries - Jersey City, NJ (1)
85. Runyan Machine - Pensacola, FL (2)
86. Savannah Shipyard - Savannah, GA (1)
87. SBA Shipyard, Inc. - Jennings, LA (2)
88. Service Engineering Company - San Francisco, CA
89. South Portland Shipyard - South Portland, ME (2)
90. Southwest Marine, Inc. - San Diego, CA
91. Southwest Marine, Inc. - Terminal Island, CA
92. Southwest Marine of San Francisco - San Francisco, CA (3)
93. Tacoma Boatbuilding - Tacoma, WA
94. Tampa Shipyards, Inc. - Tampa, FL
95. Teh Tung Steamship - Orange, TX (1)
96. Texas Gulfport Shipbuilding Company - Port Arthur, TX (1)
97. Todd-Houston - Houston, TX (1)
98. Todd Pacific Shipyards - Los Angeles, CA
99. Todd Pacific Shipyards - Seattle, WA
100. Todd Shipyards Corporation - Galveston, TX
101. Todd Shipyards Corporation - New Orleans, LA (1)
102. Todd Shipyards Corporation - San Francisco, CA (1)
103. The Toledo Shipyard - Toledo, OH (3)
104. Tracor Marine - Fort Everglades, FL (1)
105. Triple A South - San Diego, CA (1)
106. U.S. Naval Station - San Diego, CA (3)
    - Pacific Ship Repair
    - RMI, Inc.
107. Vessel Repair, Inc. - Port Arthur, TX (3)
108. West Winds - San Francisco, CA (2)
109. Wiley Manufacturing - Port Deposit, MD (1)
110. Zidell Explorations - Portland, OR (1)

(1) Facilities closed since 1982.

(2) Facilities determined not to meet criteria subsequent to 1982.

(3) Name changed since 1982.

Source: Maritime Administration, June 20, 1988

Attachment 2

PRIVATE SHIPYARD MOBILIZATION BASE
(OCTOBER 1987)

1. ADDSCO Industries, Inc. - Mobile, AL
2. AK-WA, Inc. - Tacoma, WA (1)
3. American Marine Corporation - New Orleans, LA
4. Associated Naval Architects - Portsmouth, VA (2)
5. Atlantic Marine, Inc. - Fort George Island, FL
6. Avondale Industries, Inc. - New Orleans, LA
7. Baker Marine Corporation - Ingleside, TX (2)
8. Bath Iron Works Corporation - Bath, ME
9. Bath Iron Works Corporation - Portland, ME
10. Bay Shipbuilding Corporation - Sturgeon Bay, WI
11. Bender Shipbuilding & Repair Co., Inc. - Mobile, AL
12. Bethlehem Steel Corporation-Sabine - Port Arthur, TX (1)
13. Bethlehem Steel Corporation - Beaumont, TX
14. Bethlehem Steel Corporation - Sparrows Point, MD
15. Billfish, Inc. - San Pedro, CA (3)
16. Bludworth Bond Shipyard - Houston, TX
17. Boland Marine Manufacturing - New Orleans, LA
18. Bollinger Machine Shop & Shipyard - Lockport, LA (2)
19. Boston Graving Dock Corporation - East Boston, MA
20. Boston Marine Industrial Park - Boston, MA
21. Braswell Shipyards - Charleston, SC
22. Buck Kreihs Company - New Orleans, LA
23. Caddell Drydock & Repair Company - Staten Island, NY
24. Campbell Industries - San Diego, CA
25. Coastal Iron Works - Corpus Christie, TX
26. Coastal Marine Service of Texas - Corpus Christie, TX (2)
27. Colonna's Shipyard, Inc. - Norfolk, VA
28. Commercial Marine Service, Inc. - Terminal Island, CA (1)
29. Continental Maritime of San Diego - San Diego, CA (3)
30. Continental Maritime of San Francisco, Inc. - San Francisco, CA
31. Detyens Shipyard - Mt. Pleasant, SC
32. Delta Marine, Inc. - Wilmington, NC (2)
33. Dixie Machine Welding - New Orleans, LA
34. Eastern Marine, Inc. - Allanton, FL (1)
35. Eastern Technical Enterprises - Virginia Beach, VA (1)
36. Fisherman's Boat Shop - Everett, WA (1)
37. Foss Shipyard - Seattle, WA (1)
38. Fraser Shipyards - Superior, WI
39. Fredeman Shipyard - Sulphur, LA (1)
40. General Dynamics Corporation - Electric Boat - Groton, CT
41. General Ship Corporation - East Boston, MA
42. General Ship Repair Corporation - Baltimore, MD (1)
43. Gowen, Inc. - Portland, ME (2)
44. Gretna Machine & Iron Works - Harvey, LA (2)
45. Gulf Coast Fabrication - Pass Christian, MS (2)
46. Gulf Copper & Manufacturing Corporation - Port Arthur, TX (2)
47. Gulf-Tampa Drydock Company - Tampa, FL
48. G & W Industries, Inc. - Cleveland, OH (2)
49. Halter Marine, Inc. - Equitable Division - New Orleans, LA
50. Hendry Corporation - Tampa, FL
51. H. Hanson Industries - Toledo, OH (2)
52. Honolulu Shipyard, Inc. - Honolulu, HI
53. Houston Ship Repair - Houston, TX
54. Hunters Point Naval Shipyard - San Francisco, CA
55. International Ship Repair & Marine Service, Inc. - Tampa, FL (1)
56. Jacksonville Shipyards (Bellinger) - Jacksonville, FL (4)
57. Jacksonville Shipyards - Jacksonville, FL
58. JOMAR Corporation of Tidewater - Suffock, VA (2)
59. Jonathan Corporation - Norfolk, VA
60. Jonathan Corporation - Virginia Beach, VA (1)
61. Ketchikan Shipyard, Inc. - Ketchikan, AK (1)
62. Lake Union Drydock - Seattle, WA
63. Larson Boat Shop - Terminal Island, CA
64. Litton/Ingalls Shipbuilding Division - Pascagoula, MS
65. Marathon LeTourneau Company - Brownsville, TX
66. Marine Hydraulics International - Norfolk, VA (1)
67. Marine Power & Equipment Yard No. 1 - N. Seattle, WA (4)

68. Marine Power & Equipment Yard No. 4 - S. Seattle, WA
69. Marinette Marine Corporation - Marinette, WI
70. MARISCO, Ltd. - Honolulu, HI (3)
71. Maritime Contractors, Inc. - Bellingham, WA (1)
72. McDermott Shipyard - Morgan City, LA
73. Melville Marine Industries - Portsmouth, VA (1)
74. Metal Trades, Inc. - Hollywood, SC
75. Metro Machine Corporation - Norfolk, VA
76. Moon Engineering - Norfolk, VA
77. Moon Engineering - Portsmouth, VA (1)
78. Moss Point Marine - Escatawpa, MS (2)
79. M & W Marine Service, Inc. - Newport News, VA (2)
80. National Steel & Shipbuilding Co. - San Diego, CA
81. Newpark Shipbuilding - Houston, TX
82. Newport News Shipbuilding & Drydock Company - Newport News, VA
83. Newport Offshore, Ltd. - Newport, RI
84. New York Shipyard Corporation - Brooklyn, NY
85. Nicholson Terminal & Dock Company - River Rouge, MI (2)
86. North Florida Shipyards - Jacksonville, FL (2)
87. Norfolk Shipbuilding & Drydock Corporation - Norfolk, VA
88. Pacific Drydock & Repair Co. - Oakland, CA
89. Pacific Fisherman, Inc. - Seattle, WA
90. Pennsylvania Shipbuilding Company - Chester, PA
91. Perth Amboy Drydock Company - Perth Amboy, NJ
92. Peterson Builders - Sturgeon Bay, WI
93. Port Allen Marine Service - Port Allen, LA (2)
94. Portland Ship Repair Yard - Portland, OR
    - Cascade General, Inc.
    - Northwest Marine Iron Works
    - West State, Inc.
95. Promet Marine Services Corporation - E. Providence, RI
96. Puerto Rico Drydock & Marine Terminals - San Juan, PR
97. Reynolds Shipyard Corporation - Staten Island, NY
98. Robert E. Derecktor of Rhode Island, Inc. - Middletown, RI
99. R. J. Rotunda, Inc. - Ontonagon, MI (2)
100. Service Engineering Company - San Francisco, CA
101. Southern Oregon Marine - Coos Bay, OR (2)
102. Southwest Marine, Inc. - San Diego, CA
103. Southwest Marine, Inc. - Terminal Island, CA
104. Southwest Marine of San Francisco - San Francisco, CA
105. Steel Style, Inc. - Newburgh, NY (2)
106. Swygert Shipyard, Inc. - St. Johns Island, FL (2)
107. Tacoma Boatbuilding - Tacoma, WA
108. Tampa Shipyards, Inc. - Tampa, FL
109. Textron Marine Systems - New Orleans, LA (2)
110. Todd Pacific Shipyards - Los Angeles, CA
111. Todd Pacific Shipyards - Seattle, WA
112. Todd Shipyards Corporation - Galveston, TX
113. The Toledo Shipyard - Toledo, OH
114. U.S. Naval Station - San Diego, CA
    - Pacific Ship Repair
    - RMI, Inc.
115. Vessel Repair, Inc. - Port Arthur, TX
116. Violet Dock Port, Inc. - Violet, LA (1)

(1) Commenced operations subsequent to 1982.

(2) Determined to have capability subsequent to 1982.

(3) Obtained capability subsequent to 1982.

(4) Subdivided from original entry based on diverse geographical location.

Shipyard Criteria
For Inclusion in
Mobilization Base

To be included in the U.S. Shipyard Mobilization Base, a shipyard must be able to accommodate a vessel 400′ LOA or over, this being considered the minimum nominal length for a militarily useful, oceangoing ship. The Base is divided into construction, drydocking, and topside repair yards which represent three significantly different capabilities for use in a national emergency situation. Parameters used to define shipyard inclusion and categorization in the Base are as follows:

1. - Shipbuilding: Shipyards that are open and have construction facilities with at least one shipbuilding position capable of accommodating a minimum ship length of 400′. With few exceptions, these shipbuilding facilities are also major repair facilities with drydocking capability.

2. - Repair (With Drydocking): Shipyards which have at least one drydocking facility for ships 400′ in length and above. These yards may also be capable of constructing a vessel smaller than 400′.

3. - Topside Repair: Shipyards which have a facility with sufficient berth/pier space for topside repair of ships 400′ in length and over. These yards may also have facilities for drydocking and/or constructing vessels smaller than 400′ in length.

General Requirements

4. - The shipyard must own or have in place a long term lease (1 year or more) on the facility in which they intend to accomplish the work.

5. - There must be no dimensional obstructions in the waterway leading to open ocean (i.e., locks, bridges).

6. - Water depth in the channel to the facility must be a minimum of 12 feet.

Source: Maritime Administration
June 20, 1988

(Source: Maritime Administration)

MAJOR U.S. SHIPBUILDING AND REPAIR FACILITIES

1987 UPDATE

Prepared by
Division of Production
Office of Shipbuilding Costs and Production

October 1987

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MAJOR U.S. SHIPBUILDING, REPAIR (WITH DRYDOCKING), AND TOPSIDE REPAIR FACILITIES

CLASSIFICATION DEFINITIONS

- **Shipbuilding**: Facilities that are open, having at least one shipbuilding position, either an inclined way, a side-launching platform, or a building basin--provided that water depth in the channel to the facility itself is at least 12 feet--capable of accommodating a minimum ship size of 400′ in length. With few exceptions, these shipbuilding facilities are also major repair facilities with drydocking capability.

- **Repair (With Drydocking)**: Drydocking facilties for ships 400′ in length and over, provided that water depth in the channel to the facility itself is at least 12 feet. These facilities may also be capable of constructing vessels less than 400′ in length.

- **Topside Repair**: Facilities with sufficient berth/pier space for topside repair of ships 400′ in length and over, provided that water depth in the channel to the facility itself is at least 12 feet. These facilities may also be capable of constructing and/or drydocking vessels less than 400′ in length.

NOTE

The following criteria were developed to establish the maximum ship size that could be accommodated in each drydock:

> For floating drydocks, the maximum ship length is as given by the shipyards. The maximum beam was determined by allowing a two-foot (.6 m) clearance at each side between the ship and wing wall.
>
> For graving docks, the maximum ship length was determined by allowing a two-foot (.6 m) clearance at each end between the ship and the inside of the dock at the floor. The maximum beam was determined by allowing a two-foot (.6 m) clearance on each side between the ship and each side of the dock entrance at the sill, unless the shipyard indicated more clearance is required.

There are several types of floating drydocks and graving docks, and under certain circumstances additional clearance would be necessary between the ship and the dock body. Permissible ship sizes requiring additional clearance may be determined by simple calculation from the above criteria.

October 1987

MAJOR U.S. PRIVATE SHIPBUILDING & REPAIR FACILITIES (116)

EAST COAST

Shipbuilding Facilities (9)

Atlantic Marine, Inc. - Fort George Island, FL
* Bath Iron Works Corporation - Bath, ME
* Bethlehem Steel Corporation - Sparrows Point, MD
* General Dynamics Corporation - Electric Boat - Groton, CT
Jacksonville Shipyards (Bellinger) - Jacksonville, FL
* Newport News Shipbuilding & Drydock Company - Newport News, VA
* Norfolk Shipbuilding & Drydock Corporation - Norfolk, VA
* Pennsylvania Shipbuilding Company - Chester, PA
* Robert E. Derecktor of Rhode Island, Inc. - Middletown, RI

Repair Facilities (With Drydocking) (12)

* Bath Iron Works Corporation - Portland, ME
Boston Graving Dock Corporation - East Boston, MA
Boston Marine Industrial Park - Boston, MA
Caddell Drydock & Repair Company - Staten Island, NY
Colonna's Shipyard, Inc. - Norfolk, VA
* Detyens Shipyard - Mt. Pleasant, SC
* General Ship Corporation - East Boston, MA
* Jacksonville Shipyards - Jacksonville, FL
* Metro Machine Corporation - Norfolk, VA
New York Shipyard Corporation - Brooklyn, NY
North Florida Shipyards - Jacksonville, FL
Perth Amboy Drydock Company - Perth Amboy, NJ

Topside Repair Facilities (20)

Associated Naval Architects - Portsmouth, VA
* Braswell Shipyards - Charleston, SC
Delta Marine, Inc. - Wilmington, NC
Eastern Technical Enterprises - Virginia Beach, VA
General Ship Repair Corporation - Baltimore, MD
Gowen, Inc. - Portland, ME
JOMAR Corporation of Tidewater - Suffock, VA
* Jonathan Corporation - Norfolk, VA
Jonathan Corporation - Virginia Beach, VA
Marine Hydraulics International - Norfolk, VA
Melville Marine Industries - Portsmouth, VA
* Metal Trades, Inc. - Hollywood, SC
* Moon Engineering - Norfolk, VA
Moon Engineering - Portsmouth, VA
M & W Marine Service, Inc. - Newport News, VA
* Newport Offshore, Ltd. - Newport, RI

(Con't)

Promet Marine Services Corporation - E. Providence, RI
Reynolds Shipyard Corporation - Staten Island, NY
Steel Style, Inc. - Newburgh, NY
Swygert Shipyard, Inc. - St. Johns Island, FL

East Coast Total = 41 Yards

* Shipyards included in the SYMBA Extended Analysis Base (NADES) (51).

GULF COAST

Shipbuilding Facilities (11)

* ADDSCO Industries, Inc. - Mobile, AL
American Marine Corporation - New Orleans, LA
* Avondale Industries, Inc. - New Orleans, LA
* Bethlehem Steel Corporation - Beaumont, TX
Eastern Marine, Inc. - Allanton, FL
Gretna Machine & Iron Works - Harvey, LA
* Litton/Ingalls Shipbuilding Division - Pascagoula, MS
* Marathon LeTourneau Company - Brownsville, TX
Moss Point Marine - Escatawpa, MS
Tampa Shipyards, Inc. - Tampa, FL
* Todd Shipyards Corporation - Galveston, TX

Repair Facilities (With Drydocking) (5)

Bender Shipbuilding & Repair Co., Inc. - Mobile, AL
Bethlehem Steel Corporation-Sabine - Port Arthur, TX
Bludworth Bond Shipyard - Houston, TX
Gulf Coast Fabrication - Pass Christian, MS
* Gulf-Tampa Drydock Company - Tampa, FL

Topside Repair Facilities (19)

Baker Marine Corporation - Ingleside, TX
Boland Marine Manufacturing - New Orleans, LA
Bollinger Machine Shop & Shipyard - Lockport, LA
Buck Kreihs Company - New Orleans, LA
Coastal Iron Works - Corpus Christie, TX
Coastal Marine Service of Texas - Corpus Christie, TX
Dixie Machine Welding - New Orleans, LA
Fredeman Shipyard - Sulphur, LA
Gulf Copper & Manufacturing Corporation - Port Arthur, TX
Halter Marine, Inc. - Equitable Division -
New Orleans, LA
Hendry Corporation - Tampa, FL
Houston Ship Repair - Houston, TX
International Ship Repair & Marine Service, Inc. -
Tampa, FL
* McDermott Shipyard - Morgan City, LA
Newpark Shipbuilding - Houston, TX
Port Allen Marine Service - Port Allen, LA
Textron Marine Systems - New Orleans, LA
Vessel Repair, Inc. - Port Arthur, TX
Violet Dock Port, Inc. - Violet, LA

Gulf Coast Total = 35 Yards

* Shipyards included in the SYMBA Extended Analysis Base (NADES) (51).

WEST COAST

Shipbuilding Facilities (6)

* Marine Power & Equipment Yard No. 4 - S. Seattle, WA
* National Steel & Shipbuilding Co. - San Diego, CA
* Portland Ship Repair Yard - Portland, OR
  - Cascade General, Inc.
  - Northwest Marine Iron Works
  - West State, Inc.
* Tacoma Boatbuilding - Tacoma, WA
* Todd Pacific Shipyards - Los Angeles, CA
  Todd Pacific Shipyards - Seattle, WA

Repair Facilities (With Drydocking) (11)

AK-WA, Inc. - Tacoma, WA
Continental Maritime of San Francisco, Inc. - San Francisco, CA
Hunters Point Naval Shipyard - San Francisco, CA
Marine Power & Equipment Yard No. 1 - N. Seattle, WA
Maritime Contractors, Inc. - Bellingham, WA
* Pacific Drydock & Repair Co. - Oakland, CA
Southern Oregon Marine - Coos Bay, OR
Southwest Marine, Inc. - San Diego, CA
* Southwest Marine, Inc. - Terminal Island, CA
Southwest Marine of San Francisco - San Francisco, CA
* U.S. Naval Station - San Diego, CA
  - Pacific Ship Repair
  - RMI, Inc.

Topside Repair Facilities (10)

Billfish, Inc. - San Pedro, CA
Campbell Industries - San Diego, CA
Commercial Marine Service, Inc. - Terminal Island, CA
Continental Maritime of San Diego - San Diego, CA
Fisherman's Boat Shop - Everett, WA
Foss Shipyard - Seattle, WA
* Lake Union Drydock - Seattle, WA
* Larson Boat Shop - Terminal Island, CA
Pacific Fisherman, Inc. - Seattle, WA
Service Engineering Company - San Francisco, CA

West Coast Total = 27 Yards

* Shipyards included in the SYMBA Extended Analysis Base (NADES) (51).

GREAT LAKES

Shipbuilding Facilities (4)

* Bay Shipbuilding Corporation - Sturgeon Bay, WI
* Peterson Builders - Sturgeon Bay, WI
* Fraser Shipyards - Superior, WI
The Toledo Shipyard - Toledo, OH

Repair Facilities (With Drydocking)

None

Topside Repair Facilities (5)

G & W Industries, Inc. - Cleveland, OH
H. Hanson Industries - Toledo, OH
* Marinette Marine Corporation - Marinette, WI
Nicholson Terminal & Dock Company - River Ronga, MI
R. J. Rotunda, Inc. - Ontonagon, MI

Great Lakes Total = 9 Yards

* Shipyards included in the SYMBA Extended Analysis Base (NADES) (51).

NON-CONUS

Shipbuilding Facilities

None

Repair Facilities (With Drydocking) (4)

* Honolulu Shipyard, Inc. - Honolulu, HI
Ketchikan Shipyard, Inc. - Ketchikan, AK
MARISCO, Ltd. - Honolulu, HI
* Puerto Rico Drydock & Marine Terminals - San Juan, PR

Topside Repair Facilities

None

Non-Conus Total = 4 Yards

* Shipyards included in the SYMBA Extended Analysis Base (NADES) (51).

October 1987

PRIVATE FACILITIES STATISTICS

	East Coast	Gulf Coast	West Coast	Great Lakes	Non Conus		Total By Type
NO. PRIVATE SHIPYARDS BY COAST							
Shipbuilding	9	11	6	4	--	=	30
Repair w/Drydocks	12	5	11	--	4	=	32
Subtotal	21	16	17	4	4	=	62
Topside Repair	20	19	10	5	0	=	54
TOTAL (BY COAST)	41	35	27	9	4	=	116
SHIPBUILDING & REPAIR FACILITIES SUMMARY *							
Graving Docks	14	7	8	5	1	=	35
Floating Drydocks	24	13	20	1	3	=	61
Ship Ways	15	17	10	2	--	=	44
Land Level Positions	9	12	6	--	--	=	27
Marine Railways	4	--	1	--	--	=	5
Syncrolifts	--	--	2	--	--	=	2
TOTAL (BY COAST)	66	49	47	8	4	=	174

PRODUCTION EMPLOYMENT

	OCT. 82	OCT. 83	OCT. 84	OCT. 85	OCT. 86	OCT. 87
NO. OF FACILITIES	110	101	95	88	93	116
EAST COAST	63,108	62,593	61,922	56,191	51,199	51,330
GULF COAST	22,886	15,835	16,591	14,399	15,619	17,941
WEST COAST	23,724	18,392	15,701	13,213	12,100	9,043
GREAT LAKES	2,287	1,371	1,511	2,026	3,524	1,623
NON-CONUS	450	375	210	430	355	380
TOTAL	112,455	98,566	95,935	86,259	82,797	80,317

* Topside repair facilities not included.

U.S. PUBLIC SHIPYARDS (9)

EAST COAST

Charleston Naval Shipyard - Charleston, SC
Norfolk Naval Shipyard - Portsmouth, VA
Philadelphia Naval Shipyard - Philadelphia, PA
Portsmouth Naval Shipyard - Portsmouth, NH
U.S. Coast Guard Shipyard - Curtis Bay, MD

GULF COAST

None

WEST COAST

Long Beach Naval Shipyard - Long Beach, CA
Mare Island Naval Shipyard - Vallejo, CA
Puget Sound Naval Shipyard - Bremerton, WA

GREAT LAKES

None

NON-CONUS

Pearl Harbor Naval Shipyard - Oahu, HI

October 1987

PUBLIC FACILITIES STATISTICS*

	East Coast	West Coast	Non-Conus	Total By Type
NO. PUBLIC SHIPYARDS BY COAST				
Shipbuilding	0	1	0	1
Repair w/Drydock	4	2	1	7
Subtotal	4	3	1	8
Topside Repair	1	--	--	1
TOTAL (BY COAST)	5	3	1	9

SHIPBUILDING AND REPAIR FACILITIES SUMMARY **

Graving Docks	17	13	4	=	34
Floating Drydocks	4	0	--	=	4
Ship Ways	0	2	--	=	2
Marine Railways	2	0	1	=	3
Total (By Coast)	23	15	5		43

PRODUCTION EMPLOYMENT

	OCT. 82	OCT. 83	OCT. 84	OCT. 85	OCT. 86	OCT. 87
EAST COAST	24,765	25,036	23,755	24,229	22,127	23,305
WEST COAST	18,707	16,682	17,065	17,073	15,233	16,297
NON-CONUS	4,161	4,281	4,099	4,397	3,965	3,763
TOTAL	47,633	45,999	44,919	45,699	41,325	43,365

* There are no public shipyards on the Gulf Coast or Great Lakes.

** Topside repair facilities not included.

FACILITIES CLOSED* SINCE OCTOBER 1982 SURVEY

East Coast (16)

Allied Repair Service - Norfolk, VA (1985) 3/
Bethlehem Steel - Baltimore, MD (1982) 2/
Boston Shipyard Corporation - East Boston, MA (1986) 2/
Coastal Drydock & Repair Corporation - Brooklyn, NY (1986) 1/
General Dynamics Corporation - Quincy, MA (1986) 1/
Hoboken Shipyards - Bayonne, NJ (1987) 2/
Horne Brothers - Newport News, VA (1984) 3/
Hudson Engineering - Bayonne, NJ (1984) 3
Jackson Engineering - Staten Island, NY (1984) 2/
Maryland Shipbuilding & Drydock - Baltimore, MD (1984) 1/
Munro Drydock - Chelsea, MA (1985) 3/
Rodermond Industries - Jersey City, NJ (1986) 3/
Savannah Shipyard - Savannah, GA (1984) 2/
Todd Shipyard - Brooklyn, NY (1983) (re-opened 1985) 2/
Tracor Marine - Fort Everglades, FL (1987) 3/
Wiley Manufacturing - Port Deposit, MD (1984) 3/

Gulf Coast (11)

Delta Shipyard - Houma, LA (1985) 3/
Burton Shipyard - Port Arthur, TX (1983) (re-opened '84; added '87) 3/
Galveston Shipbuilding - Galveston, TX (1984) 1/
Geosource, Inc. - Harvey, LA (1984) 3/
Halter Marine, Inc. - Chickasaw Division - Chickasaw, AL (1986) 1/
Levingston Shipbuilding - Orange, TX (1982) 1/
Misener Industries - Tampa, FL (1985) 3/
Teh Tung Steamship - Orange, TX (1984) 2/
Texas Gulfport Shipbuilding Company - Port Arthur, TX (1985) 1/
Todd-Houston - Houston, TX (1983) 1/
Todd Shipyards Corporation - New Orleans, LA (1986) 2/

* CLOSED IS DEFINED AS THOSE YARDS WITH NO WORK AND SKELETON CREWS WHICH MANAGEMENT MAY DEFINE AS "TEMPORARILY CLOSED" OR "CLOSED ON A CARE AND MAINTENANCE BASIS", IN ADDITION TO THOSE COMPANIES WHICH HAVE STATED THEY ARE CLOSED PERMANENTLY.

1/ Shipbuilding Facilites
2/ Repair Facilities (With Drydocking)
3/ Topside Repair Facilities

(con't.)

West Coast (7)

Gunderson, Inc. - Portland, OR (1986) 1/
Kaiser Steel Corporation - Napa, CA (1986) 3/
Lockheed Shipbuilding Company - Seattle, WA (1987) 1/
Port Richmond Shipyard - Richmond, CA (1985) 2/
(ex. Tri-Marine Industries)
Todd Shipyards Corporation - San Francisco, CA (1987) 1/
Triple A South - San Diego, CA (1986) 2/
Zidell Explorations - Portland, OR (1984) 3/

Great Lakes (2)

American Shipbuilding - Lorain, OH (1983) 1/
American Shipbuilding - Toledo, OH (1983) 1/
(re-opened 1985)

Non-Conus (1)

Pacific Marine - Honolulu, HI (1985) 3/

TOTAL CLOSED FACILITIES = 37

* CLOSED IS DEFINED AS THOSE YARDS WITH NO WORK AND SKELETON CREWS WHICH MANAGEMENT MAY DEFINE AS "TEMPORARILY CLOSED" OR "CLOSED ON A CARE AND MAINTENANCE BASIS", IN ADDITION TO THOSE COMPANIES WHICH HAVE STATED THEY ARE CLOSED PERMANENTLY.

1/ Shipbuilding Facilities
2/ Repair Facilities (With Drydocking)
3/ Topside Repair Facilities

FACILITIES RE-OPENED SINCE OCTOBER 1982 SURVEY (4)

Old Name (Closure Date)	New Name (Re-opened Date)
American Shipbuilding Co. - Toledo, OH (1983)	The Toledo Shipyard (1985)
Burton Shipyard Port Arthur, TX (1983)	Vessel Repair, Inc. (1987)
Boston Shipyard Corporation (1986) East Boston, MA	Boston Graving Dock Corporation (1987)
Todd Shipyards - Brooklyn, NY (1983)	New York Shipyard Corporation (1985)

TOTAL RE-OPENED FACILITIES = 4

FACILITIES ADDED SINCE OCTOBER 1982 SURVEY

EAST COAST (14)

Associated Naval Architects - Portsmouth, VA (1986)
Delta Marine, Inc. - Wilmington, NC (1986)
Eastern Technical Enterprises, Inc. - Virginia Beach, VA (1986)
General Ship Repair Corporation - Baltimore, MD (1986)
Gowen, Inc. - Portland, ME (1987)
JUMAR Corporation of Tidewater - Suffock, VA (1987)
Jonathan Corporation (Little Creek) - Virginia Beach, VA (opened 1986)
Marine Hydraulics International - Norfolk, VA (1986)
Melville Marine Industries - Portsmouth, RI (1986)
Moon Engineering - Portsmouth, VA (opened 10-85)
M & W Marine Service, Inc. - Norfolk, VA (1986)
North Florida Shipyard - Jacksonville, FL (1983)
Steel Style, Inc. - Newburg, NY (1987)
Swygert Shipyard, Inc. - St Johns Island, FL (1987)

GULF COAST (15)

Baker Marine Corporation - Ingleside, TX (1987)
Bethlehem Steel Corporation (Sabine) - Port Arthur, TX (opened 1985)
Bollinger Machine Shop & Shipyard - Lockport, LA (1987)
Coastal Marine Service of Texas - Corpus Christie, TX (1987)
Eastern Marine, Inc. - Allanton, FL (1987)
Fredeman Shipyard - Sulphur, LA (1987)
Gretna Machine & Iron Works - Harvey, LA (1987)
Gulf Coast Fabrication - Pass Christian, MS (1987)
Gulf Copper & Manufacturing Corporation - Port Arthur, TX (1987)
International Ship Repair & Marine Service, Inc. - Tampa, FL (1987)
Jacksonville Shipyards (Bellinger) - Jacksonville, FL (1985) *
Moss Point Marine - Escatawpa, MS (1987)
Port Allen Marine Service - Port Allen, LA (1987)
Textron Marine Systems - New Orleans, LA (1987)
Violet Dock Port, Inc. - Violet, LA (1987)

* Subdivided from original entry based on diverse geographical location (1985 re-evaluation of facilities).

(Con't)

WEST COAST (9)

AK-WA, Inc. - Tacoma, WA (1986)
Billfish, Inc. - San Pedro, CA (1986)
Commercial Marine Service, Inc. - Terminal Island, CA (1987)
Continental Maritime of San Francisco - San Diego, CA (1987)
Fishermen's Boat Shop - Everett, WA (1986)
Foss Shipyard - Seattle, WA (1986)
Marine Power & Equipment (Yard No. 1) - North Seattle, WA (1985) *
Maritime Contractors, Inc. - Bellingham, WA (1987)
Southern Oregon Marine - Coos Bay, OR (1987)

GREAT LAKES (4)

G & W Industries - Toledo, OH (1987)
H. Hanson Industries - Toledo, OH (1987)
Nicholson Terminal & Dock Company - River Rouge, MI (1987)
WEDTECH of Michigan, Inc. (renamed R.J. Rotunda) - Ontonagon, MI (1986)

NON-CONUS (2)

Ketchikan Shipyard, Inc. - Ketchikan, AK (opened 1987)
Marisco, Inc. - Honolulu, HI (1986)

TOTAL ADDED FACILITIES = 44

* Subdivided from original entry based on diverse geographical location (1985 re-evaluation of facilities).

FACILITIES DELETED SINCE OCTOBER 1982 SURVEY

RMI, Inc. - San Diego, CA (1985) (ex. Atkinson Marine)
(Facilities owned do not meet criteria; however, can be leased from the U.S. Naval Station - San Diego)

Runyan Machine - Pensacola, FL (1985) (insufficient pier space)

SBA Shipyard, Inc. - Jennings, LA (1985) (shallow water)

South Portland Shipyard - South Portland, ME (1985)
(insufficient pier space)

West Winds - San Francisco, CA (1985) (pier lease terminated; facilities owned do not meet criteria)

TOTAL DELETED FACILITIES = 5

NAME CHANGES AND/OR NEW OWNERSHIP NAME CHANGES SINCE OCTOBER 1982

New Name	Old Name
1/ ADDSCO Industries	Alabama Drydock & Shipbuilding Corp.
2/ Avondale Industries, Inc.	Avondale Shipyards, Inc.
1/ Atlantic Marine, Inc.	Atlantic Drydock Corp.
1/ Continental Maritime of San Francisco	SFW Corporation
2/ Gunderson, Inc. *	FMC Corporation
1/ Halter Marine, Inc.-Equitable Division	Equitable Shipyard, Inc.
1/ Hoboken Shipyards, Inc. *	Braswell Shipyards
1/ Honolulu Shipyard, Inc.	Dillingham Shipyard (Pacific Marine Merger)
1/ Houston Ship Repair	Marine Maintenance
3/ Hunters Point Naval Shipyard	Triple A Shipyards
3/ New York Shipyard Corporation	Rodermond Industries (ex. Todd-Brooklyn)
2/ Pacific Fishermen, Inc.	Rowe Machine Works
3/ R. J. Rotunda, Inc.	Wedtech of Michigan
3/ Southwest Marine of San Francisco	Todd Shipyards Corp. - San Francisco
3/ The Toledo Shipyard	American Shipbuilding - Toledo
1/ U.S. Naval Station	Port of San Diego

1/ Name change

2/ New owner

3/ Both

* Closed facility

UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
NATIONAL OCEAN SERVICE
Washington, D.C. 20230

AUG 23 1988

Honorable Walter B. Jones, Chairman
Committee on Merchant Marine
and Fisheries
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

On June 14, 1988, I appeared before the Subcommittee on Merchant Marine of the House Committee on Merchant Marine and Fisheries to testify on H.R. 4704 and the National Oceanic and Atmospheric Administration (NOAA) Fleet and its operations. Upon reviewing the transcript of the testimony, I noticed that at page 113, I answered a question regarding the NOAA position on the Buy American requirement in the bill. I indicated that I did not believe we opposed the requirement. Upon checking with the Department, I discovered that the Department and the Administration have typically opposed Buy American provisions because they distort trade flows and hurt American efforts to eliminate similar restrictions among our trading partners.

I would appreciate it if you would enter this letter into the record to correct my misstatement.

Sincerely,

Sigmund R. Petersen

Rear Admiral Sigmund R. Petersen, NOAA
Director, Office of Marine
Operations

The NOAA Fleet

CLASS	NOAA SHIP		HOME PORT	GENERAL DESCRIPTION						MISSION						
				Length (feet)	Displacement (tons)	Cruising Speed (knots)	Endurance (days)	Survey Launches	Scientific Accommodation	Bow Thruster	Helicopter Platform	Laboratory	Charting & Mapping	Environmental Assessment	Fisheries Research	Atmospheric Research	Oceanographic &
I	Oceanographer	(1964)*	Seattle, WA	303	4,033	11	31			24	●		●				●
	Discoverer	(1964)	Seattle, WA	303	4,033	11	31			24	●		●				●
	Researcher **	(1968)	Miami, FL	278	2,963	13	31			16	●	●	●	●			●
	Surveyor	(1959)	Seattle, WA	292	3,440	12	28			16	●	●	●	●			●
II	Fairweather	(1967)	Seattle, WA	231	1,800	11	22	4		4	●		●	●			
	Rainier	(1967)	Seattle, WA	231	1,800	11	22	4		4	●		●	●			
	Mt. Mitchell	(1966)	Norfolk, VA	231	1,800	11	22	4		4	●		●	●			
	Miller Freeman	(1967)	Seattle, WA	215	1,920	12	31			11	●		●		●	●	
III	Peirce	(1963)	Norfolk, VA	163	907	12	20	2		2				●			
	Whiting	(1962)	Norfolk, VA	163	907	12	20	2		2				●			
	McArthur	(1965)	Seattle, WA	175	995	10	28			6			●		●	●	●
	Davidson	(1966)	Seattle, WA	175	995	10	23	2		2			●	●			
	Oregon II	(1967)	Pascagoula, MS	170	952	12	31			15			●			●	
	Albatross IV	(1962)	Woods Hole, MA	187	1,089	10	16			15	●		●			●	
IV	Townsend Cromwell	(1963)	Honolulu, HI	163	652	10	30			9			●			●	
	David Starr Jordan	(1964)	San Diego, CA	171	993	10	31			13	●		●			●	
	Delaware II	(1967)	Woods Hole, MA	155	758	11	24			9			●			●	
	Chapman	(1979)	Pascagoula, MS	127	520	9	14			6	●		●			●	
	Ferrel	(1968)	Norfolk, VA	133	360	8	9			6	●		●		●		
V	John N. Cobb	(1950)	Seattle, WA	93	250	9	13			4			●			●	
	Rude	(1966)	Norfolk, VA	90	220	9	3			0				●			
	Heck	(1966)	Norfolk, VA	90	220	9	3			0				●			
VI	Murre II	(1943)	Juneau, AK	86	295	9	8			5			●			●	

*Year Launched
**Now MALCOLM BALDRIGE

TABLE 1 (Source: NOAA, 14 June 1988)

STATEMENT OF DR. ALLAN W. CAMERON, EXECUTIVE DIRECTOR OF THE COMMISSION ON MERCHANT MARINE AND DEFENSE, BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE OF THE HOUSE MERCHANT MARINE FISHERIES COMMITTEE ON H.R. 4704 AND H.R. 4662

JUNE 14, 1988

Mr. Chairman and members of the Subcommittee on Merchant Marine, I am Allan Cameron, the Executive Director of the Commission on Merchant Marine and Defense. It is a pleasure for me to be here this morning, at the direction of the Chairman and the Commissioners.

Mr. Chairman, I want to commend Congressman Davis and you for your efforts to identify, highlight, and address the problems facing the shipbuilding industry in the United States as well as the situation of our maritime industries as a whole. Similarly, I want to commend the Shipbuilders Council of American for its effort to put together legislation that has already had the effect of stimulating this hearing and of generating considerable discussion.

On behalf of the Commissioners, I testified before the Subcommittee last December about the problems facing our shipbuilding and repair industry. You also know about the views of the Commissioners on the problems facing the American maritime industries both from their two reports and from the appearance before you of the Chairman -- Senator Denton -- and Admiral Holloway earlier this year.

I know that you are aware of the challenges inherent in any effort to address the problems of commercial shipbuilding in the United States, as well as of the need for precise and careful drafting in any legislation. Clearly, any measure that will in fact bring about the construction of a significant number of merchant ships in United States shipyards on an ongoing basis will require the expenditure of federal funds in some form, either directly, or through a subsidy, or through foregone revenue from tax incentives or a comparable measure.

Indeed, in my judgment, and I believe that of the Commissioners, any program that will effectively address the strategic sealift needs of the United States will require the expenditure of federal funds in some significant amount, although the costs for action now will be substantially less than if action continues to be deferred.

The Commissioners have not had the opportunity to examine and discuss the bills being considered here today, one of which -- H.R. 4704 -- falls outside their purview. At their May meeting, however, they did reaffirm their unanimous commitment to the integrated, comprehensive set of recommendations contained in their Second Report, issued in January, and restated their view that it would be counterproductive to address only one or some aspects of the problems facing our maritime industries rather than dealing with the situation as a whole.

Under those circumstances, the Commissioners have suggested that I might most usefully explain the key elements and essential rationale of the Procure and Charter program suggested in their Second Report, both in its own right and as part of the total integrated set of recommendations.

Based on their studies, analysis, and input from their public hearings, the Commissioners concluded that the lack of commercial oceangoing ship construction has been a major factor contributing to the decline of American shipbuilding capability, and that maintaining the shipbuilding and ship repair industries, their industrial suppliers, and the design expertise required to support the mobilization effort during a protracted general war is essential to deterring or, if necessary, to winning such a war.

Further, they concluded that there is no more militarily efficient, cost-effective, and reliable way to provide the majority of military sealift capability now and in the future than through an active United States flag merchant marine, composed of militarily useful ships manned by United States crews and engaged during peacetime in carrying commercial cargo.

Taken as a whole, their recommendations are designed to provide a program responsive to those conclusions in both the near and long terms. They believe that adoption of their recommendations as a whole would have several positive benefits. Implementation of the recommendations would:

-- Increase both the number and quality of ships with specific utility for strategic sealift to a number sufficient to meet minimum national security requirements;

-- Increase the absolute and relative amount of United States foreign trade carried in American flag ships;

-- Equip the United States flag commercial fleet with the most modern possible ships and technically advanced cargo handling equipment, obtained at world market competitive prices;.

-- Provide increased opportunity and ability for United States ship operators to compete successfully with foreign flag carriers in the commercial market;

-- Promote and provide for the construction of commercial ships in United States shipyards;

-- Ensure an adequate shipbuilding mobilization base, including shipyard facilities and a sufficient cadre of skilled shipyard workers and ship designers;

-- Ensure adequate manufacturing and supply of key shipbuilding components, systems, and equipment;

-- Lay the base for maritime industries capable of healthy growth, contribution to the national security, and participation in American economic health and strength.

The Procure and Charter program recommended by the Commission is an integral part of the total package. It is not simply a program for commercial ship construction but, rather, is based first and foremost on the national need for merchant ships with a high degree of military utility and for a shipyard mobilization base, both of which respond directly to the most critical defense needs. It is a program with a great degree of synergy and a high payoff, because it addresses several crucial areas:

-- The need for militarily useful ships of types that are not likely to be generated by the commercial marketplace for use under the United States flag, particularly unit equipment capable ships and product tankers.

-- The need to construct commercial-type ships in United States yards, not only to preserve the shipyard mobilization base itself but also to preserve the design and construction skills required for commercial rather than military work and to sustain the domestic suppliers of commercial-type ship systems and equipment;

-- The need for the preponderance of militarily useful ships to be active in the commercial trades in order to support the pool of trained, skilled seagoing manpower needed to man those ships, reserve ships, and other vessels in the event of mobilization or conflict;

-- The need to equip the operating merchant marine with modern, efficient ships in order to help to reduce its costs and to improve its competitive position in the international marketplace.

Priority would be given to ship types with high military utility yet with sufficient commercial viability to make them competitive in commercial service. For example, the Commission would not see the need to build, under the Procure and Charter program, ship types that can be obtained at favorable prices on the world market and that ship operators would obtain themselves, without any need for government intervention, in a free marketplace. By that I mean that operators will buy, as they have been, large non-self-sustaining container ships, large tankers, and large dry bulk ships, areas of construction in which foreign yards, frequently with significant subsidies or government support, currently have established a substantial price advantage over United States yards. They will buy more of those ships if certain rules that impose disadvantages on foreign procurement, particularly for liner operators, are relaxed.

Rather, the Commissioners have been thinking about ship types such as relatively small product tankers, small self-sustaining container ships, Roll-on/Roll-off ships of various sorts, and multipurpose ships -- container/Ro-Ro or container/bulk come to mind -- that would have commercial value along with high military utility. The Procure and Charter program might also include ships suitable for trooplift if a specific military requirement is identified.

The Procure and Charter program should, therefore, produce a very different ship mix than would a simple subsidy, such as the Construction Differential Subsidy, which would tend to generate ships of the type that commercial operators would normally buy on a free market but that would subsidize the construction of those ships in United States yards. Although such a program might create work for United States shipyards, it would do so only at considerable cost and it would not produce the ship types of which we have the greatest shortfall for strategic sealift.

The total number, types, and mix of ships procured under the Procure and Charter program would be developed by the Maritime Administration and the Department of the Navy, in consultation with the shipping industry and based on shipping industry and strategic sealift needs. The goal would be to maximize the commercial viability of ships with high military utility.

For reasons of economy, the ships would be designed to commercial, not military, standards, and the designs would be suitable for series construction. All critical components and systems would, to the maximum extent possible, be domestically produced. The designs would emphasize easily producible features so that the United States shipbuilding industry and manufacturers of major ship systems could provide the ships and their components quickly in large numbers during a national mobilization effort. The designs would employ energy-saving hydrodynamic features, engineering systems, and automation concepts. The Navy and the Maritime Administration should ensure that the designs incorporate the necessary militarily useful and survivability features.

The Commissioners believe that it is appropriate for the federal government to build ships with a high degree of military utility. They also believe that such ships are well suited for construction in United States yards.

A procurement plan for the design of each ship type would be developed by the Maritime Administration and should include a design competition, followed by construction of a prototype of each ship type to obtain specific cost, design, and construction refinements for inclusion in the final design for the follow-on construction of ships of each type in a multi-year, ongoing

construction program.

Funds for the program should be authorized and appropriated to the Maritime Administration budget. The minimum number of vessels authorized to be built under the program should be determined by the procurement plan but, in order to build the merchant fleet toward the required size and capability, should average at least twelve per year over a 10 year period.

Building the ships according to the principles that I have just outlined is just half the problem. The other part is ensuring that they are active in the commercial trades.

By definition, the ships would not be the most commercially viable and competitive ships, for if they were they would be built and operated in the normal course of things. Therefore it is clear that the cost to the operator of obtaining the ship through charter must be less, by some factor, that the cost of the ship if the operator built it himself.

For that reason, the Commissioners recommended that the ships be available for charter under the United States flag by qualified and experienced operators, although they could also be made available to operators through outright sale. The qualifications of the operators should be certified by the Maritime Administrator.

The program must be run in a way that would minimize the possibility of unfair competition or that would put an existing operator at an unfair disadvantage. The Commissioners have talked about a competitive bid process for chartering the ships, perhaps with limitation on the number of ships that any given operator could charter at any time. There are a number of ideas floating around in this area, and the Commissioners have not by any means concluded their consideration of it.

The charter process should endeavor to incorporate terms designed to assure commercial viability, and to reduce operator capital cost in order to improve the ability of the operator to compete for existing commercial cargo. In some cases, where highly militarily useful ships are inherently inefficient in commercial use, the charter rate may have to be very low. In any case, the ships should be active in commercial use, not placed in the Ready Reserve Force.

What that means, Mr. Chairman, is that the total cost to the operator would have to be low enough to make it attractive to him -- which means profitable to him -- to operate a Procure and Charter ship in the commercial trades. The Commissioners believe that the key factor is the cost to carry a given amount of cargo, and that operators will run ships if the cost to carry cargo on those ships is commercially competitive. They believe that there are operators who would be able to do that and who would see the advantages of it.

Because the Procure and Charter ships would be modern and efficient, the comparative operating costs should be low. But, since the ships would probably not, in many cases, be the optimum commercially competitive types, the capital cost to the operator -- which, for the Procure and Charter program, means the charter rate -- would have to be low enough to offset the disadvantage, and might in some cases approach zero. In addition, it may be that, in some cases, the operator should be able to receive Operating Differential Subsidy for the operation of the ship.

Discussions that the Commission's staff have had with a significant number of people in the industry reinforce the belief of the Commissioners that a program operated in the way that it was conceived and that I have described it could, in fact, work effectively.

The object, again, is to make the cost to the operator fall

at a point where he can operate the ship productively and profitably in the commercial trades. The more militarily useful the ship -- or the less commercially viable -- the lower the cost is going to have to be to the operator and the more of it the government is going to have to pick up in one way or another.

Clearly, the government could not expect to recover the entire cost of the ship through charter fees, and it might have to provide additional subsidy of some sort.

The difference between the cost to the government to construct the ship and to sustain it in commercial service, therefore, and the amount of income that the government would receive from the charter would be the price that the government would pay for having a specific strategic sealift asset available. It would not be simply a subsidy, with all the negative connotations of that term, but the cost of a national security asset. That, it seems to the Commissioners, is a reasonable thing for which the government should pay.

The economic analysis involved is probably even a little more complex. The government would pay construction cost and perhaps an operating subsidy, and it would receive a charter fee. But there are other financial advantages as well, although they are harder to quantify. The wages paid to the American crew would result both in taxes paid and in a benefit for the United States economy. The operating company, and its shore-based employees, also would receive income and pay taxes.

To the extent that the ships could compete internationally, and therefore take business away from foreign flag ships, the dollars paid for the movement of cargo by American companies would stay in the domestic economy rather than going overseas, adding to the balance of payments and balance of trade deficits.

To the extent that the ships would carry preference cargo that would otherwise be moved on foreign flag ships, the dollars would also stay in and benefit the domestic economy. Ideally, the program should help to make the United States flag merchant marine larger, more efficient, and more competitive, and therefore to reduce the cost of carrying preference and other cargo.

And, of course, there is the basic fact that the dollars involved in the construction itself would go to American shipyards, American shipyard workers, and American equipment manufacturers and suppliers, as would the dollars paid for subsequent overhaul and repair. Not only would there be important economic benefits from that, but there would be a valuable contribution to the United States industrial base.

I have tried to make the point that the economic, and the national security, benefits of the proposal made by the Commissioners are much broader than simply those accruing directly from the construction of the ships alone.

How that all shakes out in net terms is not easy to determine, although the Commission's staff is working on the problem. I believe that it is fair to say, however, that the net cost to the government and to the American economy would be less than the construction costs of the ships themselves.

The Commissioners have used the figure of about $1 billion a year for the program, basing that on simple construction cost, estimated high, without any consideration of offsetting revenues. They hope to be able to provide a more comprehensive and balanced total analysis, and they hope that the appropriate agencies of the government might support and assist in the conduct of that analysis.

Mr. Chairman, let me again underline that the Commission's proposal attempts to respond simultaneously to several needs:

-- First, to provide ships of the type and number required to meet the nation's strategic sealift needs;

-- Second, to sustain the nation's shipbuilding and ship supplier mobilization base;

-- Third, to have the ships operating actively in the United States flag merchant marine and manned by United States merchant mariners;

-- Fourth, to increase the absolute size and competitiveness of the United States merchant marine; and

-- Fifth, to achieve those goals at minimum cost to the taxpayer and to have the taxpayer pay only costs that are clearly identified as defense costs.

On that last point, Mr. Chairman, let me note that there is ample precedent for the concept. You and other members of the Committee will recall that the Interstate Highway System was built in part because of its defense value, and the substantial federal contribution was initially justified on those terms. There are comparable situations in other transportation modes, including ports and waterways, and our airline system.

I should also add and emphasize, Mr. Chairman, that the Commission's recommendations, insofar as they apply specifically to the shipyard industry, are not limited to the Procure and Charter program. The Commissioners also recommended several other measures:

-- "Build and Charter," by which ships built with private funds would be chartered to the government;

-- Designs and prototype construction of "mobilization ships" for rapid construction in times of emergency;

-- Strengthening and improvement of existing programs to support commercial construction, including both Title XI and the Capital Construction Fund;

-- Efforts to support the export of military ships and to identify "niche" areas for commercial work;

-- Incentives to encourage modernization of the Jones Act fleet;

-- Government measures to "level the playing field" by dealing with foreign subsidies and unfair practices;

-- Efforts, including possible changes to the tax laws, to make shipyard investment and modernization more attractive and productive;

-- Strengthening of the ad valorem tariff for ship repair;

-- Efforts to ease the burdens on the industry by elimination of unnecessary or counterproductive laws and regulations; and

-- Government participation in programs to encourage improvements in efficiency by both management and labor.

Mr. Chairman, the Commission has been challenged by private industry, members of Congress, and the Administration to conduct the kind of analysis that demonstrates that its proposals are cost effective in comparison with other methods of addressing strategic sealift needs. The Commissioners believe that questions of that sort are legitimate. We are working to do the required analysis, and we hope that we will have the cooperation

of all the interested and concerned parties, both in and out of government, in providing information and technical assistance.

The Commissioners believe that there are questions that must be asked about any proposed program, including their own. The questions include:

-- Is the proposal cost effective?

-- Does the proposal respond effectively to national security needs?

-- To the extent that the program has commercial aspects, is it commercially viable in terms of access to cargo, cost competitiveness, and opportunities for operator profitability?

-- If the program involves carriage of preference cargo, will it allow preference cargo to be moved at a fair and reasonable rate?

Mr. Chairman, I must emphasize what the Commissioners themselves have said. The Commission's recommendations were designed to be implemented as a whole, and its goals simply cannot be achieved if its recommendations are dealt with on a piece-meal basis with some implemented and others rejected. It is important that the Administration, Congress, ship operators, shipbuilders, suppliers, and labor set aside their differences and cooperate for the common good. Instead of arguing about the division of an ever smaller pie, our maritime industries and interests should be working together to make the pie larger.

Indeed, Mr. Chairman, it is my view that that ship operators, ship builders, and maritime labor are natural allies and should be working together for the common good. I believe that the Commissioners hold the same view, and their ability to work cooperatively and constructively together demonstrates it.

As one of the Commissioners, the Honorable William E. Haggett, Chairman and Chief Executive Officer of Bath Iron Works Corporation, said in a speech to the American Society of Naval Engineers, on May 3: "If we get selfish and try to pick those parts best for us, and reject others, the entire plan will most certainly fail. If there ever was a time to come together in support of a comprehensive and a balanced set of recommendations, this is it."

Thank you, Mr. Chairman.

Statement Of
John J. Stocker
President
Shipbuilders Council of America
Before The
Subcommittee on Merchant Marine
Committee on Merchant Marine & Fisheries
On
H.R. 4662 and H.R. 4704
June 14, 1988

I am John J. Stocker, President, Shipbuilders Council of America, the national trade association representing America's shipbuilders, ship repairers and manufacturers of marine equipment. A list of our membership is attached. This list shows that our membership includes 25 companies with 33 shipbuilding and ship repair facilities as well as 17 marine equipment manufacturers and four major naval architect firms. Our membership represents almost 95 percent of all shipbuilding and ship repair employees in the country.

I appreciate the opportunity today to present to you the views of the Shipbuilders Council on H.R. 4662, introduced by the chairman and ranking minority member of the House Committee on Merchant Marine and Fisheries and on H.R. 4704 introduced by those same gentlemen plus nine other distinguished members of the House of Representatives.

Before I address the Council's specific recommendations on those two bills, allow me to outline for you the critical state of the U.S. shipbuilding and ship repair industry which renders the rapid passage of both of these measures a matter of vital interest to the shipyards of this country.

The Shipbuilders Council uses as its benchmark of shipyard capability the Navy/MARAD Shipyard Mobilization Base (SYMBA) study which, utilizing data as of October 1, 1982, determined the need in time of national emergency for eight naval shipyards, the one Coast Guard shipyard and 110 private shipyards. That base of 110 private yards has eroded severely in the intervening five years. As of October 1, 1987, only 69 of the original 110 yards remained open and 32,000 out of the original 112,000 production workers have drifted away from the industry.

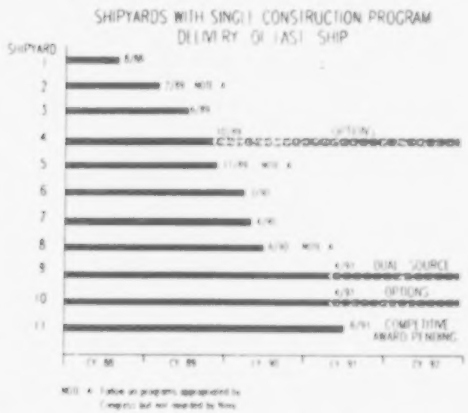
As you know, the last oceangoing commercial ship on the order books of the U.S. shipbuilding industry was delivered in November 1987 and there are few prospects for near term new business. Given the expected levels of defense funding over the next few years, the Shipbuilders Council anticipates that both Navy shipbuilding and Navy ship repair, our only business base, will decline. As a result, I anticipate more yard closures in the future unless both the legislative and executive branches act quickly to promote a revitalization of commercial shipbuilding in this country.

For six years now, we shipbuilders and the U.S. Congress have been told consistently by all agencies of this Administration - except the U.S. Navy - that the rebuilding of the 600-ship naval fleet alone could maintain the essential shipyard mobilization base of this nation. Indeed, this was the rationale used in justifying cancellation of the Construction-differential Subsidy program in 1981. Gentlemen, the declining employment and other statistics which I have presented today show how fundamentally - indeed dangerously - flawed this precept has been and continues to be. The data clearly illustrates that Navy business alone cannot and will not sustain the shipyard mobilization base necessary to allow this nation to prevail in time of war.

In January of this year, the Commission on Merchant Marine and Defense released its second report containing its initial recommendations. The Shipbuilders Council agrees whole-heartedly with the Commission's conclusion "that the lack of commercial oceangoing ship construction has been a major factor contributing to the decline of American shipbuilding capability and that maintaining the shipbuilding and ship repair industries, their industrial suppliers, and the design expertise required to support the mobilization effort during a protracted general war is essential to deterring or, if necessary, to winning such a war."

As Navy shipbuilding becomes more concentrated in a smaller number of shipyards, the industrial base narrows. At present, the Navy new construction programs funded under the Shipbuilding and Conversion, Navy (SCN) appropriation utilize the facilities of sixteen shipyards. Five of those yards hold contracts for two or more different programs and have reasonable expectations for a continuing workload. The work in these yards is highly concentrated and their contracts represent slightly more than 90 percent of the value of all outstanding SCN dollars.

The eleven other shipyards involved in Navy shipbuilding or conversion program hold only one contract each and their total business base is less than ten percent of all SCN outstanding contract values. The following chart depicts the date of delivery of the last Navy ship under current contracts at each of the eleven shipyards which each have only one Navy new construction or conversion program:

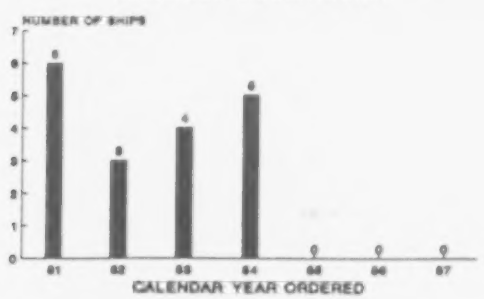


As you can see, without commercial new building to replace lost Navy work, seven of the eleven yards may have no new construction work remaining on their order books by the middle of calendar year 1990, a short two years from now.

Let me now turn to H.R. 4662, a bill "To Revitalize the Maritime Industry in the United States." Shipbuilders Council is fully supportive of the efforts of the committee to craft legislation which supports the entirety of the industry - not just one segment. The philosophy of equal treatment for all elements of the industry was the hallmark of recommendations of the Commission on Merchant Marine and Defense which the Council is already on record as fully supporting.

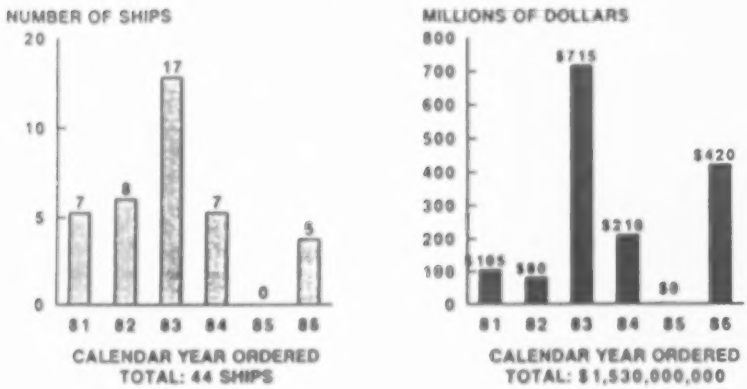
Since funding for Construction-differential Subsidy (CDS) program was zeroed by the Reagan Administration in fiscal year 1982, only eighteen oceangoing ships have been built in this country. These vessels were all constructed for the protected coastwise trades. The chart set forth below depicts the decline of that marketplace, resulting in the present situation where no ships are on order:

U.S. COMMERCIAL SHIP CONSTRUCTION ORDERS
SINCE CDS DISCONTINUED



Conversely, in that same period, forty-four ships have been built or converted abroad for U.S. registry and are eligible for the benefits of the Operating-differential Subsidy (ODS) program. During fiscal years 1981 through 1986, U.S.-flag operators received a total of $2.1 billion in direct government subsidies from ODS program while the shipbuilding industry has received no benefit from the CDS program. The following chart shows the foreign commercial ship acquisitions of the operators by year and the approximate cost of their offshore purchases:

FOREIGN BUILT SHIPS FOR ODS OPERATORS



Despite the obvious tilt in maritime policy toward the operators in this decade, the Shipbuilders Council is ready to support the build/foreign provisions of H.R. 4662.

At its March meeting, the Board of Directors of the Shipbuilders Council agreed, in the interest of all sectors of the U.S. maritime industry, to support the elements of the Commission's report recommending some build/foreign authority for U.S.-flag liner operators. This is a major concession on the part of a beleaguered industry. What we have agreed to is very simple. For any ship built in a U.S. yard, the purchaser receives from the government the authority to order overseas a ship of equivalent size, tonnage and complexity. We do not and will not support the concept of a "window" for shipping lines which would permit them to order unconstrained numbers of ships overseas. Please be assured that the shipbuilders are more than willing to work with the other members of this industry for the common good - but we are not prepared to step aside and allow a flood of foreign-built ships to enter the U.S.-flag fleet unless there is a fair and equitable business base for the commercial shipbuilders of this nation.

H.R. 4662 would modify the Merchant Marine Act of 1936 to establish a Procure and Charter Revolving Fund in the Treasury which would provide for the construction of ships in the private shipyards of this country. These ships would be "capable of serving as a naval or military auxiliary in time of war or national emergency" or are economically viable or are determined to be "otherwise unavailable in sufficient numbers in time if war or national emergency." These ships will be built for the government account and will require annual appropriation for their construction. The Chairman of the Commission on Merchant Marine and Defense, Senator Jeremiah Denton, has publicly expressed his opinion that the annual cost to build twelve ships a year for this purpose will be about $960 million. This figure will be reduced in future years as charter payments are paid to the revolving fund and eventually the program could become self-sustaining - or nearly so.

Nevertheless, in a period where the budget belt is tightening, the possibility of adding a new billion dollar a year program of any sort is very slight and will require extensive discussion and debate. We recommend the establishment of the Procure and Charter Revolving Fund as the first necessary step in that process. However, fiscal realities would appear to dictate that the appropriation of monies for the fund is sometime in the future. Therefore, we believe that the most timely method to initiate assistance to the operators and the shipbuilders will be to legislatively establish a two-fleet system which would allow for limited and controlled worldwide procurement of ships eligible for ODS while implementing a new domestic commercial shipbuilding program. Such a program would address the following issues:

- The true objective of the ODS program should be to place the privately-owned, U.S.-flag liner fleet on an operating and asset parity with its foreign-flag competitors so the fleet can effectively and efficiently compete for commercial cargo. Commercial cargo generation should be the primary goal of the U.S.-flag liner fleet and legal impediments to competing for such cargo should be eliminated by the government. In the absence of funding for the Construction-differential Subsidy program, the U.S.-flag liner operator will not have asset parity with its foreign competitor.

- To implement the Commission's recommendation that an operator should have limited authority to build/foreign in conjunction with a U.S. domestic shipbuilding program, it is essential that, in essence, two fleets are created. One, a truly commercial liner fleet armed with the appropriate and proper resources to compete head-to-head with foreign-flag operators for commercial cargo. The other, a fleet consisting of militarily-useful vessels built in the United States dedicated to the transportation of military and government-impelled cargo. This fleet would consist solely of U.S.-built, U.S.-flag vessels of not more than 20 years of age with its primary objective to meet critical strategic sealift requirements in time of emergency.

- The commercial fleet would be eligible for ODS to offset the higher cost of U.S. seamen. The domestic fleet would not receive ODS where carrying military or government-impelled cargo.

- For each commercial ship construction contract placed with a U.S. shipyard, that operator would have a slot to place a construction contract with a foreign shipyard. If the operator elects not to use the foreign slot, the operator could sell or transfer the build/foreign authority to another operator. We note with approval that H.R. 4662 addresses each of these issues.

The subcommittee has also asked for the Shipbuilders Council's comments on H.R. 4704, the National Oceanic and Atmospheric Administration Fleet Modernization Act of 1988. The bill would authorize appropriations in the amount of $613 million to permit NOAA to undertake a badly needed 10-year fleet modernization and expansion program.

The measure, introduced by you, Mr. Chairman, and cosponsored by ten other members of the House Merchant Marine and Fisheries Committee, calls for the replacement of four obsolete vessels, the modernization of 19 ships, and the construction, lease, or other acquisition of seven new vessels. Implementation of the program would increase the size of the NOAA fleet from the current 23 ships to 30 by 1999.

We note with appreciation the language in section 7(c) which requires all modernization or construction work performed on ships in the NOAA fleet under H.R. 4074 to be carried out in private shipyards in the United States. The Council would interpret this broad domestic building requirement to encompass any vessel which the Under Secretary of Commerce for Oceans and Atmosphere might lease or otherwise acquire under the grant of authority contained in section 7(a) of the bill.

In addition, you may be assured that the Allied Industries members of the Council appreciate the "Buy American" provision of the bill. In this regard, H.R. 4074 requires all major components of the hull and superstructure of the vessel to be fabricated in the United States. It also requires that at least 50 percent of the cost of all machinery,

including propulsion and components not an integral part of the hull or superstructure of the vessel, except for scientific equipment which cannot reasonably be purchased domestically, be attributed to items procured in the United States.

The Council strongly supports H.R. 4074, and urges its quick passage. As you have said, Mr. Chairman, while this bill certainly is not a cure-all for the problem plaguing the Council's members, it is a positive step in the right direction.

The bottom line, Mr. Chairman and members of the subcommittee, is that the hour is getting late for all segments of the American maritime industry; operators, seagoing labor, and shipyards. Unless, we are all willing to give a little, I can assure you that the maritime community will slip further into a dark abyss.

Regardless of the final outcome of the proposed legislation which we have strongly endorsed, we clearly see bleak prospects for the nation's private shipbuilding base for domestic ship construction and repair business. The "ever downward" spiral seems inevitable for the foreseeable future. At the same time, however, we also see the growing international competitiveness of U.S. "smokestack" industries in general - at least over the short term. In recognition of these trends, I am pleased to announce that the Shipbuilders Council of America has created an Office of Export Assistance to help our industry, which traditionally has not been export oriented, become more actively involved in the international arena. At current levels of international currency exchange and productivity - and given a level playing field in financing and other incentives - we believe that our industry can compete with Northern European yards for commercial vessels; and we strongly believe that in the Foreign Military Sales (FMS) arena, an entirely U.S.-built and delivered complex warship is currently less costly than any comparable foreign derivative - even in the Far East.

The basic function at the Council's Office of Export Assistance will be to provide market assistance for all of its membership by providing:

1. A point of contact for foreign customers seeking sources within the United States for ships, shipbuilding technology, supporting hardware and services.
2. Market survey, analysis and intelligence information to assist members in obtaining the necessary data to improve the quality of their decisions as to the expenditure of limited business development funding.
3. Expertise and assistance in obtaining the necessary licenses for the pursuit of export oportunities.
4. Expertise and assistance in developing acceptable financing to successfully consummate foreign sales opportunities.
5. A focal point for the shipbuilding industry in working with, and influencing various of the "payload" suppliers, so that mutually beneficial linkages and cooperative actions are effected.
6. Common support positions favorable to the shipbuilding industry related to the overall sale of weapon systems and technology in the international marketplace.
7. Vigorous promotion for effective U.S. Government involvement and assistance in pursuit of foreign market opportunities.

We strongly believe that this "proactive" initiative is timely and will be effective in promoting new business opportunities for our beleaguered but vitally important private United States shipbuilding industry.

This concludes my prepared remarks. I will attempt to answer any questions that the subcommittee might have.

Thank you.

PREPARED STATEMENT OF ERNEST J. CORRADO, PRESIDENT, AMERICAN INSTITUTE OF MERCHANT SHIPPING, BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE, 14 JUNE 1988

Thank you, Mr. Chairman, for the opportunity to appear here today to testify on this important matter. I am Ernest J. Corrado, President of the American Institute of Merchant Shipping (AIMS) which is a national trade association representing 20 U.S.-flag ocean carriers which own or operate approximately eight million deadweight tons of tankers, dry bulk carriers and other oceangoing vessels engaged in the domestic and international trades of the United States. Not all, but most of AIMS' members are engaged exclusively in the domestic trades of the United States.

I am pleased to be able to comment on the various provisions of H.R. 4662. I shall comment first on the provisions establishing the so-called procure and charter program, and after that I shall comment on the section entitled, "Conforming Amendments," which has a significant impact on the existing system and statutes governing the carriage of government-impelled cargoes.

We firmly believe that it is necessary for the national security interests of the United States to maintain the current domestic shipbuilding base, so for that reason we wish it were possible to support H.R. 4662. However, there are sufficient provisions of the bill which are objectionable so we must oppose it. There may be other ways to help the shipbuilding industry and we certainly would support any reasonable suggestion or initiative in that regard. However, it is our belief that it is a mistake to couple the shipbuilding problem with the ship operator issue, especially the subsidized liner problem. There are a number of bills now before the Congress addressing the ODS reform issue. We think it is imperative that the shipowner part of maritime revitalization be dealt with separately from the shipbuilding problem and we think that ODS should be available equally to all the liner operators.

Unfortunately, this bill before us does not appear to add to the solution of the general maritime problem confronting the industry, but only exacerbates the problem. Rather than spend time on a measure that will be very contentious and, from a practical standpoint, has little chance of enactment, it appears that it would be much more beneficial and positive if our energies were directed toward a positive initiative, such as the enactment of the Arctic National Wildlife Refuge (ANWR) bill. Enactment of ANWR legislation, reported out recently by the Merchant Marine and Fisheries Committee and now before the Interior Committee, would: (1) provide secure energy supplies for the United States in the coming decades; (2) provide much needed building for U.S. shipyards; (3) provide necessary cargoes for the U.S.-flag tanker fleet in the next decade when Alaskan North Slope oil will begin to decline rather sharply; and, (4) will provide increased carriage of commodities and work for operators serving Alaska, such as Sea-Land, Crowley and Tote.

Perhaps our primary concern with H.R. 4662 is that there simply will not be any petroleum cargoes to fill these vessels. Currently, there is insufficient cargo to fill existing vessels, many of which were built in the past six years with commercial financing. Tanker movement of oil products in the inter and intracoastal trades is nearly extinct having long been replaced by pipelines and tug/barges. If this questionable procure and charter program were to go forward, the U.S. Government will find itself in the embarrassing position of having diverted limited federal funds to build very expensive vessels for non-existent cargoes.

Under Section 1 of the bill, the so-called "procure and charter" provision, the federal government, our government, would construct ships with economic and military capabilities for lease to private operators for use in the domestic trades, foreign commerce, or international trades of the United States.

Unfortunately, the so-called procure and charter provision is not specific as to monies appropriated for the procure and charter revolving fund to be established in the Department of Treasury. It is not specific as to the time frame for the funding, is not specific with respect to the number of vessels to be constructed under this program, and is not specific as to size or type of vessels to be constructed. The few times in the past when the Congress has authorized a build and charter or a procure and charter program, the enacted legislation specified exactly the number of vessels, the type of vessels, and the amount. I cannot for the life of me believe that the Administration will support, or that the Congress will authorize, a wide-open bill such as H.R. 4662 now before your Committee for consideration, Mr. Chairman. The construction of any type vessel that may be contemplated under this program will amount to millions of dollars and probably approximately a billion dollars, just for construction. The budgetary problem confronting the next Congress and the next Administration will not permit the expenditure of monies of this magnitude for these purposes and the fact that the bill is wide open with respect to the amount which would be allocated for such a program makes it even more unlikely that the Congress would enact such a financially open-ended program. In addition, if vessels were to be constructed under this program the question presents itself, "what vessels for what trade?" As to the domestic tanker trade, I cannot imagine an entrepreneur leasing a vessel for this already over-tonnaged trade, especially faced with the loss of cargoes by such controversies as CDS pay back and the continued threat of the export of Alaskan oil.

The bill provides for the construction of vessels in private shipyards in the United States and the charter of such vessels to citizens of the United States for documentation under the laws of the United States and operation in the domestic trade, foreign commerce of the United States or international trade. The existing operators in the domestic trades cannot possibly accept the dumping of these government-financed vessels into the domestic trade. Many of the existing bulk operators in the domestic trades have fought tooth and nail over the years against CDS vessels being permitted permanently to operate in the domestic trade as well as attempts by some elements in the Administration and the Congress to take bulk vessels from the Ready Reserve Fleet (RRF) and put them into the domestic trades in place of, or in competition with, existing domestic trade vessels. The existing bulk operators have invested some four billion dollars of private funds for vessels to operate in the existing domestic fleet without subsidy or a charter type program sponsored by the government. It would be inequitable and result in an unfair balance to expect these pristine operators to be able to compete in that trade with a vessel that has been subsidized or a vessel that has been built with government money under the proposed procure and charter program. Under such circumstances, there would not be parity of capital costs which would contribute to instability in the rates in the trade for the operator who invested private funding for operation in what, at the time he invested, was a domestic trade with defined rules for financing and investment.

In addition, the bill provides that the Secretary of Transportation shall not charter a vessel constructed under this Title for an amount "less than the capital cost of the vessel, not including sealift enhancement or national defense features, less reasonable depreciation based on a 20 year life of the vessel." Such a stipulation would almost certainly preclude the possibility of chartering vessels built under the proposed program. Since the chartered vessel will be constructed in a U.S. shipyard with materials by U.S. suppliers and will be paid for by the federal government, the capital costs of the vessel will be relatively high. It will go into competition with U.S.-flag vessels whose construction costs were paid for by the owner or operator. Obviously, this difference in investment in capital

equipment will adversely affect the rate in the trade. On the other hand, since the vessel cannot be chartered at less than its capital costs, and the operator will have additional expenses, such as fuel and crewing, it will be expensive to operate. Unless the federal government is willing to subsidize the rate to operate such a procure and charter ship in the domestic trade, it will not be able to operate at anywhere near a competitive rate level. It is problematical that the federal government will be willing or able to put in the enormous costs at the front end of this procure and charter scheme for the construction of such vessels, much less invest an additional sizable amount of money at the other end of the arrangement in order that the vessel can operate in the trade at a realistic rate level.

The provisions of H.R. 4662 would further cause instability in the rates and carriage in the domestic trades, would complicate bidding procedures, and discourage participation in the program inasmuch as it is provided that the "Secretary of Transportation may provide in the charter contract for an escalation or a periodic renegotiation of the contract to reflect changes in market conditions." This means that the charterer in the trade can renegotiate the terms of the charter at any time whereas the other operators in the trade are bound by the fixed terms of their charter for the duration of the charter. Normally, a charter contract (or charter party) will have no such provisions since it is incumbent on parties to the contract to consider these factors in the first place before agreeing to the charter rate for the term specified. This appears to be very unfair and would contribute further to instability in the trade.

Section 1405(a)(3)(c) provides that the Secretary may specify repairs for which the charterer must pay. This is an open-ended liability which would be impossible to factor into a bid. It would be preferable just to require that the vessel be maintained in class and in good repair and avoid any obligations which might be imposed by the Secretary to make unforeseen repairs.

In summary, we oppose the procure and charter program set out in H.R. 4662 because of the completely open ended nature of its provisions which are non-specific with respect to vessel type, size, and especially amounts necessary to fund the program. In today's climate of an extremely tight budget, a substantial and growing deficit, large net interest payments on the federal deficit, and ever-increasing restrictive spending priorities, it is unrealistic to believe that any Administration will commit the substantial sums of money needed to finance the construction of vessels under this procure and charter program and make available the equally substantial amounts of money necessary to provide rate stability for the operation of these vessels once constructed. We are totally opposed to these high cost vessels constructed by the federal government being dropped into the domestic trade in competition with U.S.-flag carriers which have invested immense amounts of private capital for the construction of vessels for this trade in belief that they would not be subjected later on to competition by vessels constructed by the federal government.

Section 3 of the bill, entitled "Conforming Amendments," would radically change the existing system and statutes for the carriage of government-impelled cargoes by U.S-flag vessels. The provisions of this section redefine "privately owned United States-flag commercial vessels" to exclude any vessel built outside the United States. As a consequence, as of the effective date of October 1, 1992 stipulated by the bill, any vessel built in a foreign yard and documented in the United States and flying the U.S. flag would not be eligible to carry government-impelled cargoes as provided in Section 901(b)(1) of the Merchant Marine Act, 1936, as amended, or the export of agricultural commodities or other products resulting from loans made by the federal government, or cargoes under the Agriculture-Maritime Agreement negotiated in 1985 and enacted December 23, 1985, or military cargoes under the Cargo Preference Act of 1904. We are totally opposed to these Draconian provisions as they would arbitrarily cut off in 1992 the carriage of these government-impelled cargoes by many of the vessels of AIMS' members which were built foreign

and reflagged and have relied over the years on these sources of cargo. This arbitrary cut off is unfair and discriminatory and is changing the rules of the game in mid-stream after operators have invested substantial sums of money in the belief that they would operate under a fixed set of rules.

These same provisions would prohibit a vessel more than 20 years old or one more than five years beyond having been substantially rebuilt in the U.S. from carrying these government-impelled cargoes in question. We think that this arbitrary cut off at the age of 20 years is unfair, capricious and discriminatory. Because a vessel is in excess of 20 years of age does not mean it is necessarily a so-called "rust bucket" or a dangerous or an unsafe vessel. It depends upon the care and maintenance of the vessel over its life. A vessel poorly maintained could be in bad condition in much less than 20 years, whereas a vessel well maintained and cared for may be in excess of 20 or even 25 years of age and still be operating perfectly well and be a safe and efficient piece of equipment.

In this connection, I would draw the Committee's attention to the SS CONSTITUTION and SS INDEPENDENCE, carrying passengers in Hawaii. I sailed on these vessels 38 years ago and they are now approaching 50 years of age. I doubt that the Coast Guard which certified them or the U.S. maritime unions crewing them would agree that these vessels are unsafe. The SS MONTEREY, almost 40 years old, is being renovated and brought into service this year. Should these vessels have been arbitrarily cut off from commercial activity after 20 years? The facts and history do not indicate that. This arbitrary 20 year cut off is obviously a make work provision instigated by the shipyards.

Section 4 of the bill grandfathers vessels on which ODS may be paid except for CCF, and provides for an ODS operator to acquire a vessel in a foreign shipyard after the effective date of this act provided that this operator or another operator has placed an order to construct a vessel of substantially equivalent capacity in a U.S. shipyard, viz., a one-to-one foreign/U.S. yard acquisition.

As we mentioned earlier, we believe that the shipyard and ship operator problems should not be coupled but should be resolved separately. In any event, I shall leave the arguments against this one-for-one procurement practice to the ODS liner operators.

We do appreciate the opportunity to provide our comments on H.R. 4662 for the record. I shall be happy to answer any questions that the Committee may have.

PREPARED STATEMENT OF WILLIAM P. VERDON, PRESIDENT, UNITED SHIPOWNERS OF AMERICA BEFORE THE SUBCOMMITTEE ON MERCHANT MARINE, JUNE 14, 1988

Introduction

Mr. Chairman, members of the Subcommittee, thank you for giving United Shipowners of America (USA) the opportunity to appear before you today and express our views on H.R. 4662. My name is William P. Verdon and I am President of USA, a trade association representing over 95% of the United States-flag liner vessels in international trade. Our members are American President Lines, Ltd., Crowley Maritime Corporation, Farrell Lines, Inc., Lykes Bros. Steamship Co. Inc., and Sea-Land Corporation.

At the outset and so there is no mistake about it, I would like to state categorically that USA is opposed to H.R. 4662 in its entirety.

The goals outlined in the introductory remarks are absolutely correct ones. We must work together "to strengthen our merchant marine and enhance our national security". The problem, as USA sees it, is that the bill introduced at the request of the Shipbuilders Council of America not only fails to live up to these goals but if enacted, will have the exact opposite affect - it will destroy the U.S. flag liner industry and do nothing for the shipbuilding industry.

In particular, enactment of the bill would make the U.S. liner fleet hopelessly non-competitive by imposing high capital costs on it and wrecking its participation in the cargo preference program. And remember, this proposal is made against a background where, over the last 10 years, the U.S.-flag share of our nation's liner commerce has already dropped from 30 to less than 15 percent.

We want to make clear at the outset that our strong opposition to this bill is based on compelling and inescapable financial realities of the liner business, specifically the need for U.S. carriers to acquire cost-competitive vessels.

The cost of U.S. built commercial vessels cannot be absorbed by U.S.-flag liner carriers.

A modern containership or other liner vessel built in a U.S. yard costs approximately three times as much as the same vessel built in a foreign yard. And it takes three times as long to build here. This delay equates to an even greater financial penalty for a carrier buying a U.S. built ship.

These cost differences are enough to sink the fleet. Take a large modern containership that would cost approximately 40-50 million dollars overseas. Requiring a U.S. liner carrier to buy that vessel here imposes a penalty of roughly 80-100 million dollars on the carrier for buying that vessel.

We are not talking here about 80-100 million dollars in the context of the 1 trillion dollar Federal budget. We are talking about 80-100 million dollars extra to be paid for by an individual carrier - for one ship. U.S.-flag carriers cannot be expected to keep up with their foreign flag competitors under any handicap, much less such a huge handicap. And the handicap this proposal would impose is that huge because H.R. 4662 does not provide for the U.S. government to make up the difference for the high cost of buying U.S. built ships.

I. Procure and Charter Program

(A) No Program at all

A close reading of H.R. 4662 quickly reveals that the procure and charter program would destroy the existing cargo preference system and is an illogical condition precedent for the right to acquire foreign built ships.

First of all there is no definitive money appropriated for implementation of the program. Section 2 of the bill simply states in vague language that

"there is authorized to be appropriated to the Procure and Charter Revolving Fund any amounts as may be necessary to capitalize the fund".

Even if the bill were to pass into law, there is no indication of how much, if anything, would be appropriated for this program. Indeed, as written now you would have a non-funded theoretical program. But the damage done by the rest of the bill would be real, not theoretical, and existing law concerning cargo preference and ODS would be irrevocably changed for the worse.

In considering the lack of definitive funding for this bill, the first question that must be asked is how much will be appropriated to the fund to finance the Procure and Charter program? Before that question can be answered, one needs to know the scope of the program. Is it one vessel or twelve vessels? One also needs to know the type, size and character of such vessels. Will they be of a design that will cost 50 million dollars per ship or 150 million dollars per ship? Until answers are forthcoming the proposal is so vague as to be meaningless. Before new programs are created and funded with taxpayers' dollars, there first should be an explicit definable program with measurable parameters. There is no such program in H.R. 4662.

At this stage the proposal is so totally vague as to cost, scope, size, type and number of vessels and duration of the program that we believe that the bill should go back to the drawing board, and those who requested its introduction should be required to put some flesh and bones on the skeleton before serious consideration can be given to the bill. A definite plan must be advanced before people can be expected to adequately comment on the merits. The cart seems to have somehow gotten in front of the horse.

(B) Anticipatory Termination

In addition to the distinct probability that the program may never get off the ground even if the bill is enacted into law, the bill itself contemplates the failure of the program. Section 1401(c) anticipates a lack of future funding since the program will not be based on entitlement but rather will be subject to the vagaries of yearly appropriation battles. Thus, not only don't we know what the first year - or any year - will cost or how much should be appropriated, but we don't know if there will even be a viable program at any time. Section 1401(c) contemplates unavailability of funds and provides that if that happens, the program will be terminated and the vessels, if any, built under the program will be transferred to the National Defense Reserve Fleet.

There are two glaring problems with this conceptual approach. First, what liner operator would want to charter a vessel from such a tenuous program and plan his operations around such a quick-silver scheme? It must be emphasized that in the liner industry the vessel's costs are a significant but not dominant portion of the fixed and variable total costs. It is difficult to believe that any one would invest hundreds of millions of dollars in containers, chassis, terminal facilities, inland facilities and people, with the probability that the whole enterprise might collapse because his ships could be taken away and given to the NDRF due to budgetary constraints. Such a proposal is based on hope and not reality, and does not take into account the stark business realities facing a U.S.-flag liner operator.

Secondly, since this bill contemplates linkage between foreign building and the procure and charter program, what happens if at the end of year one there is a death of the program. Once again, the shipowners would be left in the absurd position of not being able to build new vessels and expand through no fault of their own. Much undue criticism has been leveled at the shipowners for the decline of the merchant marine over the last decade. The fact is that our hands are tied and have been tied most of the time because of an inability to build. When there was a true cost parity CDS program there was building. When there was a one year window there was building. Indeed, 29 foreign built U.S.-flag liner vessels were constructed under the one year window and they have been the

only U.S.-flag vessels built for the international liner trade since 1979. Today these vessels are the bulwark of the U.S.-flag fleet, making up approximately 50% of the total U.S. liner capacity. If anyone thinks the U.S. flag liner fleet is weak today, just imagine where we would be had Congress not had the foresight to allow foreign building in 1981. The fat lady would be in the wings. Give us the freedom to build and you will see the entrepreneural spirit flourish.

(C) Procure and Charter Is a Charade

There appear to be three basic goals underlying the Procure and Charter program, each of which is salutary in and of itself. The difficulty as USA views it, is that these three worthwhile goals ought to be met head on and resolved directly instead of going through the charade of Procure and Charter, which just won't work. Such a program is laboriously attempting to put a square peg into a round hole, and regardless of the good intentions of all concerned as well as the admittedly worthwhile goals, it just won't work.

The three basic goals are (i) to build militarily useful vessels that are also commercially viable, (ii) to promote work for that small segment of U.S. shipyards who need work, and who have the ability to build large modern ships, and (iii) to maintain and preserve jobs for U.S. citizen seamen who will be available in time of national emergency. Rather than working through the questionable maze of the Procure and Charter program, USA suggests the following direct attack on the problem.

First, assuming the validity of the proposition that certain militarily useful auxiliary vessels are needed, then the Navy should come forward, testify to their need and build them within its budget. It is rather surprising that the shipbuilders keep telling us of tne dire need for this breed of vessel but the ones with the expertise, the U.S. Navy, are silent. We know the Navy is not shy about seeking appropriations for vessels it believes it needs, and we firmly believe that if needed, these vessels should be built as all other Navy vessels are built - without an unworkable procure and charter program. Direct building will satisfy goal number one. There just is no need for the zig zag of a procure and charter scheme.

Second, these militarily needed auxiliary vessels would of course be built in U.S. shipyards and thus, goal number two would be fulfilled.

Third, since such vessels would not be commercially competitive, the procure and charter program would not add any U.S. citizen seamen to the rolls since the vessels would never operate. After a decade of talking about the "mystery" vessel that would be the product of a procure and charter program and would be primarily military in nature, but also commercially useful, we are no closer to an understanding of what this vessel will look like now than we were at the outset. Regrettably, modern technology has made the concept of "a primarily military vessel that is commercially viable" an impossibility. USA strongly advocates that the way to meet the third goal would be to allow unrestricted foreign building as discussed by the Commission on Merchant Marine and Defense. If the past is any indication of the future, this would result in an ambitious shipbuilding program over the next decade. Competitively viable commercial ships would be built and these would provide a source of U.S. citizen seamen available for service in the time of national emergency. The Navy estimates that 80% of all military resupply material can be containerized. In addition, primarily commercial ships, i.e., container, are militarily useful. Indeed, the Department of Defense, recognizing that the container ship will be the predominant commercial carrier - in all fleets - in the future, has spent enormous sums to develop specialized containers, seasheds, flat racks, and portable container cranes, which provide the capability to carry large military vehicles and outsize cargo that cannot be put in standard boxes.

Container ships enormously speed up loading and discharge, and deliver military support in a form that enables the cargo to be rapidly distributed to inland

depots, avoiding the dangerous concentration of material at the port areas. Our experience during the Viet Nam war is a good example of the effective employment of a commercial sealift fleet of various composition. Breakbulk ships were used during the early part of the conflict, but their slow rate of discharge resulted in dozens of ships sitting at anchor off Saigon for up to two months waiting to unload. After the United States constructed container facilities in Saigon and at Cam Rahn Bay, the supply bottleneck was broken and most military supplies to Vietnam moved on container ships.

A variety of vessels are required in the U.S. merchant fleet. For instance, breakbulk vessels are needed to serve U.S. trades to the lesser developed countries where emerging economies lack the infrastructure to handle containerized cargo either in ports or the interior. Self sustaining commercial vessels that have military utility are essential in these trades, but existing ships will not be replaced as their lives expire in the next five years unless a practical ODS reform program is enacted.

USA's plan fulfills all three goals, does it directly without mirrors, and most importantly, does it without creating a program doomed to failure and does it without wrecking the existing U.S.-flag liner fleet by driving existing operators out of business or into foreign flag operation.

II Cargo Preference

(A) Contrary to Goals of the Merchant Marine Act of 1936

The purpose and policy of the Merchant Marine Act of 1936, as amended was, and is, to create, expand and strengthen the U.S.-flag merchant marine. Despite differences of opinion on the application of the law during the last 52 years, one thing everyone has agreed upon is the goal of strengthening and expanding the U.S.-flag merchant marine. Indeed, the introductory statement to this bill restates that proposition. Ironically, this bill would have exactly the opposite effect. Instead of attracting new entrants with new foreign built vessels to the U.S.-flag, encouraging reflagging of existing vessels to U.S.-flag, and supporting existing U.S.-flag foreign built vessels (which presently comprise approximately 50% of all U.S.-flag liner capacity in international trade), this bill will have the perverse effect of driving operators away from the U.S.-flag. Let me demonstrate how this will occur.

Section 3 of H.R. 4662 seeks to radically change existing law and provides that foreign built vessels, even though they fly the U.S. flag, pay U.S. taxes, employ U.S. citizen seamen at as much as four times the cost of foreign seamen, and comply with the stricter code of U.S. Coast Guard rules and regulations, will never be able to carry government impelled preference cargo, including military cargo, after 1992. This is without a doubt the most radical and destructive maritime bill ever introduced.

Current law provides that preference cargo can be carried in a foreign built vessel that has been U.S. flagged for three years. Since 1904 the law has allowed foreign built U.S.-flag vessels to carry military cargo immediately upon flagging U.S., with no waiting period. The right to carry preference cargo is the strongest and often only incentive for an international ship operator to fly the U.S. flag and employ U.S. citizen seamen.

Such a radical and destructive departure from existing law would drive liner operators away from the U.S. flag and accomplish the exact opposite of what the 1936 Act set out to do - encourage the growth of U.S.-flag vessels.

(B) Existing U.S.-Flag Foreign Built Vessels

This bill would not only turn the world upside down for new foreign built vessels, but it would also, ex post facto, take away from existing foreign built U.S.-flag vessels the right to carry government impelled cargo. This depriva-

tion of existing rights would cause economic chaos to the existing U.S.-flag liner fleet which is now made up of approximately 54 foreign built vessels.

These companies have relied upon existing laws and have built their companies and spent billions of dollars on the strength and integrity of laws that have been in effect in some instances for over 80 years. For the Congress now to do an about face would destroy, not strengthen, the U.S.-flag fleet, and would leave U.S.-flag liner operators with two options. First, since they would be so economically non-competitive, they could go out of business and close up shop; second, they could seek to reflag their vessels and operate under foreign flag. May we suggest that if you should seriously consider this proposal it would only be fair that shipowners be authorized to change to foreign flag when the incentive to flag U.S. in the first place is taken away.

(C) Twenty Year Old U.S. Built U.S.-Flag Vessels

Adding insult to injury, the proposed bill goes further and advocates that even U.S. built vessels flying the U.S. flag, if more than 20 years old, will be declared ineligible to carry preference and military cargo. This is absurd. It is condemnation without fair recompense. The U.S. government just does not have the authority to take away a person's rights and properties without just compensation and legitimate reasons. Neither exists in this situation. In 1992, 42 existing U.S.-flag liner vessels will be 20 or more years old and they will be quite capable of carrying preference cargo as well as commercial cargo. Millions upon millions of dollars have been spent by the U.S.-flag liner companies keeping these vessels in class and in compliance with U.S. Coast Guard requirements, according to U.S. laws. Now we are told that despite the huge expenditues and their good condition, they are to be declared involuntarily obsolete and ready for the scrap heap. Again, rather than strengthening the U.S.-flag liner fleet, this would have the opposite effect and would lead either to the scrap heap or to foreign flagging.

The extent of the damage this proposal would cause can be seen when one realizes that ships built abroad or built U.S. and over twenty years old will make up over 85% of our liner fleet in 1992.

(D) Procure and Charter Alone Cannot Support U.S. Built Ships

Any thought that culling the fleet in the above manner will lead to a stampede of U.S. operators to U.S. shipyards and a resurgence of building in such shipyards is misguided, illogical, destructive and shows a complete misunderstanding of the economic reality of the shipping business.

While it is absolutely correct that there would be a shortage of existing U.S.-flag vessels capable of moving preference and military cargo in support of our national security, it is wrong to conclude that it would spur building in U.S. shipyards. It would not. Rather, this preference cargo would move in foreign flag bottoms and further exacerbate the decline of the U.S.-flag fleet in the international market place.

While preference and military cargo is an important incentive to flagging a vessel U.S., it is not sufficient incentive to justify building a vessel in a U.S. shipyard at three times the price of a foreign vessel, and taking three times as long. The total costs of such a vessel would far exceed the foreign competition's costs for similar capital assets and would spell economic disaster. It must be remembered that preference cargo is essentially an export movement and thus for the remaining 50% homebound portion of a voyage such an expensive U.S. built vessel would be an empty albatross that would quickly destroy the liner company that embarked on such a venture. Indeed, even on the export leg, today's government impelled rates wouldn't even come close to being sufficient to meet capital costs. In order to be successful the rates charged to the U.S. government in order to support a ship built in the U.S. would have to increase astronomically.

Finally, it must be remembered that even if the procure and charter program founders, the remaining sections of the bill (i) terminating the right of U.S.-flag foreign built vessels to carry preference cargo and (ii) practically prohibiting foreign building will remain in effect and guarantee the demise of the U.S.-flag liner fleet.

III. Use of Vessels In The Domestic Trades

As the bill is written vessels built with federal funds under the Procure and Charter program could be used exclusively in U.S. domestic trades. This proposal presents a number of troubling problems, not the least of which is unfair competition with carriers already in the domestic trades. We know that other witnesses are appearing today who will discuss these problems in considerable detail, so we will limit our comment to the fact that we share their concerns.

IV. ODS Reform

Today, as bizzare as it may sound, the remaining seven U.S.-flag liner companies are operating under two separate and distinct sets of rules. Four of the companies operate under ODS, while the remaining operate without ODS. Having two separate systems for seven companies operating in the international market place is at the root of the troubles facing the U.S.-flag liner industry. Until we are all competing under the same set of rules and regulations we cannot hope to become a cohesive force in the international shipping arena.

USA believes that the number one priority of ODS reform is to establish a system that will allow all U.S.-flag liner operators the opportunity to participate and to have one set of rules and regulations equally applicable to all such operators.

It is odd that when the sensible and clear trend is to have all U.S. flag liner companies playing by the same rules and under the same system, and when there is a clear recognition that parity of wages is needed so that a U.S.-flag operator with 20 vessels is not fifty to sixty million dollars in the hole on January 1 of each year vis-a-vis its foreign competitors, this bill goes the wrong way and attempts to maintain the two separate systems. Indeed, as stated above, it even attempts to create a third system involving cargo preference.

Vessels built under a procure and charter program would not be eligible for ODS. Thus, operators who choose to charter such a vessel are immediately from day one non-competitive with foreign competition. They will be paying many times the labor costs of their foreign competition. In addition, they will be paying many times more for capital costs incurred by building the vessel in a U.S. shipyard. Clearly, no commercial operator in the foreign commerce would be able to bear such an economic burden and thus no one will charter a vessel under the program.

V. Linkage - Build Foreign

Section 4 of H.R. 4662 seeks to allow for the construction or acquisition of a vessel in a foreign shipyard after the effective date of the Act, provided that operator or another has placed a firm order to construct a substantially equivalent capacity vessel in a U.S. shipyard or has entered into a charter contract for a vessel built under the procure and charter program. Thus, the bill severely limits the authority to build or acquire foreign and for all practical purposes makes build foreign authority non-existent. Such linkage dooms any growth in the U.S.-flag liner fleet and continues the freeze on U.S.-flag expansion. Linkage is the starting line for the end of the U.S.-flag merchant marine - and for reasons we have discussed will not help U.S. shipbuilders.

(A) Linkage To An Illusion

USA is against any such linkage not because of a "dog in the manger" attitude on our part, not because we wish our friends in the shipyard business any ill will, and not because we disagree that a shipyard mobilization base is needed for the national security of our nation. Rather, we are against such a proposal because we believe (i) that the necessary reforms in the liner industry and the shipyard industry, while related by national security, are separate and distinct problems calling for separate and distinct solutions, (ii) that the solutions to the liner industry's difficulties are near at hand, while the shipyards' problem of zero commercial building has no realistic solution in sight and (iii) the Procure and Charter program is fatally flawed from the outset and truly is no program at all. Having our future survival tied to such a flimsy and distant hope simply means that our reform will be held hostage and eventually wither and die.

(B) The Crucial Missing Element

The entire justification for the build and charter proposal is the national defense of the United States. We agree with the Shipbuilders Council and with many others that it would be desirable to have more shipyards available in time of emergency than can be maintained through the building programs of the U.S. Navy, Coast Guard, other government and Jones Act fleets. However, it is clear that while the Pentagon would also like to have more shipyards available, they do not believe the situation is critical enough to require spending any money from their budget of over 280 billion dollars a year. We can only conclude that they believe other requirements have a higher priority.

Apparently the Administration agrees with this decision because they have steadfastly refused since 1980, when this debate began, to put up CDS type money to maintain additional shipyards. We would wholeheartedly like to see senior representatives of the Department of Defense and the Administration come forward at these hearings and state that they are willing to include additional shipyard funding in the DOD budget. If this happens, we will work vigorously to ensure its enactment.

Absent a willingness by DOD to put up money, it is apparent to us that the build and charter program is doomed.

(C) Simultaneous Approach

USA is not against - but supports - Congress simultaneously addressing the different segments of the industry. What we are saying is that the inquiry into and review of the problems should go forward on parallel, not overlapping tracks. In that way, existing solutions to one set of problems can be implemented and that industry, be it the liner or the shipbuilding industry, can be on its way to recovery.

Since the demise of the CDS program - the natural linkage between the two industries - there have been innumerable and continuing attempts to either reinstate a true cost parity CDS program or a build foreign authority with linkage. During this period of time the needed reform to the liner industry, and in particular the ODS program, has been stymied, and it is time to say enough is enough. After all, the liner fleet alone since 1980 has declined from about 250 to 111 ships and such great American carriers as Delta, Moore McCormack, Prudential and United States Lines, are all gone. Let's get on with the business of implementing laws that fit the marketplace of the latter part of the 20th century and pass a law that gives us true ODS reform. The ODS problem is not only solvable, it is ripe to be solved. By itself. The fact that there may not yet be complete and universal consensus on the exact form of total ODS reform does not mean that it can't be accomplished. Once we can shake off the yoke of linkage, leadership and common sense as well as common goals will produce an ODS reform package that will solve the problems of the U.S.-flag liner shipping industry.

(D) Facing Reality

USA is in favor of facing up to reality. The CDS program has remained unfunded since 1981. There appears to be little or no support for its reincarnation in the Administration or in the Congress. U.S.-flag liner operators are between the proverbial rock and hard place. Absent a CDS program U.S. carriers are economically and competitively prohibited from building in the United States. Nor can we build or acquire abroad and be eligible for ODS, whose purpose was not to ensure a shipbuilding base (that was the purpose of CDS), but rather to ensure the availability of U.S.-flag vessels and U.S. citizen seamen. Skilled crews are needed to operate both merchant ships and the government reserve fleet ships in time of emergency. Unless a compromise solution is reached promptly it is clear that there will be far fewer U.S.-flag liners. The already inadequate supply of U.S. citizen seamen will further decline.

USA believes that the solution to the problem the shipyards face as a result of the end of the CDS program, and the resulting end of merchant shipbuilding except for Jones Act vessels, must not be tied to a solution of the urgent problems that shipowners face. There can be no doubt that each industry faces problems. We believe these problems to be parallel rather than intertwined. As such, each should be solved independently.

(E) Commission on Merchant Marine and Defense

There is one definite misconception concerning the Recommendations of the Commission on Merchant Marine and Defense that must be clarified before it starts being accepted as fact. The introductory statement accompanying the bill states:

> "This authority to build foreign will be linked to a Procure and Charter program, as recommended by the Commission on Merchant Marine and Defense."

This is a misreading of what the Commission in fact said. The Commission reluctantly came to the conclusion that there should be linkage on some ratio basis only after a one year window, during which time the operators would be entitled to build and acquire foreign with no limitations. And indeed, linkage would kick in if and only if there was a fully funded on-going procure and charter program in effect so that there would be something concrete for the shipowners to link onto. Such a recommendation, while in itself flawed, is a far cry from the system vaguely outlined in this bill, where the ship operators would be linked from day one to a theoretical program without definition, parameters and most importantly, money.

The idea of the Commission was that as long as there is no concrete program in effect it would be unjust to demand linkage as that simply would be holding the ship operators hostage to a moving target that may never be hit. Thus, the one year window and the requirement of an actual procure and charter program before linkage becomes a requirement. This wording and interpretation of the Commission's report was confirmed at the hearings on May 23 in the question and answers between USA and the Commissioners, and I recommend that this Subcommittee review the transcript.

I have said the Commission reluctantly came to the conclusion requiring linkage because it is clear from the words of the report that the Commission intellectually recognized the absurdity of linkage in the first place. There is no natural nexus between the two. As the Commission said:

> "United States ship operators should be able to procure vessels at competitive world market prices. The recommendation allowing foreign built United States flag ships to be eligible for ODS should ultimately have no limits in terms of time, ship type, and numbers ..."

Despite their intellectual and proper conclusion on the issue of linkage, they reluctantly recognized political reality and reacted to the bold statements

of the shipbuilders that unless they received something they would kill any attempt at ODS reform. Thus, the Commission diplomatically stated that an unfettered build foreign authority was unrealistic and settled for the one year window.

(E) Build Foreign Will Not Adversely Affect U.S. Shipyards

Most significant is the fact that solutions to ODS reform are within sight, will not cost vast amounts of money, and will not injure other segments of the merchant marine industry. By qualifying foreign built U.S. flagged liner ships for ODS, U.S. shipyards will not be deprived of any work since, without CDS, U.S. yards can't build in the first place. Modernization of the U.S.-flag fleet with foreign built ships is not an alternative to building in U.S. shipyards. Rather, it is an alternative to no modernization at all. Linking the two industries in effect says "instead of going ahead and solving the shipowners' plight, let's hold it hostage until we can come up with a solution to the shipbuilders' problem". It should be noted that even if there were adequate federal resources to make merchant shipbuilding in U.S. shipyards feasible, the building program over the next decade, while critical to those operators who need modern tonnage, will be insignificant in solving the shipyards' dilemma. The backs of the U.S. shipowners are just not broad enough to support the shipbuilders' need for additional work.

Gentlemen, you have two troubled industries and the solution for liner shipping is readily available. It makes no sense to say you won't release that solution unless someone can come up with an effective solution for the shipyards. Don't misunderstand us. We favor solving the problems facing the U.S. shipyards. At the same time, truth demands that we recognize that the U.S. government in 1988 is already spending over 16 billion in U.S. shipyards for Navy work. This is not an industry that has been abandoned. Maybe what's needed is a redistribution of the spoils rather than an arbitrary increase in expenditures. Building the type of vessels needed for military purposes such as clean product tankers and unit equipment capable ships in a U.S. shipyard is an admirable and necessary goal. That goal shouldn't be used to hurt U.S.-flag shipping. Calls for renewed CDS or procure and charter, while well intended, should proceed on their own merits. Put pure and simple, there doesn't appear to be support for spending taxpayers' dollars on commercial shipbuilding. You can thus appreciate our concern with being linked to such programs.

That concludes our prepared remarks on H.R. 4662 and we would now like to discuss with you any questions you may have.

STATEMENT
OF
PHILIP M. GRILL
VICE PRESIDENT, GOVERNMENT RELATIONS
OF
MATSON NAVIGATION COMPANY, INC.
TO THE
SUBCOMMITTEE ON MERCHANT MARINE
MERCHANT MARINE AND FISHERIES COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON
H.R. 4662, TO ESTABLISH A VESSEL PROCURE AND
CHARTER PROGRAM
JUNE 14, 1988

I am Philip M. Grill, Vice President, Government Relations of Matson Navigation Company, Inc. (Matson). I very much appreciate the opportunity to testify before the House Subcommittee on Merchant Marine on H.R. 4662, a bill to establish a Procure-and-Charter Program. More specifically, H.R. 4662 contemplates a federally funded program where the government would construct vessels in private United States shipyards and charter them to commercial users for operation in the domestic trade, the foreign commerce of the United States, or the internatonal trade. Matson feels strongly that ships built by the federal government and chartered to private operators should be excluded from the U.S. domestic trades because their domestic use will exacerbate overtonnaging and present insurmountable problems of unfair competition vis-a-vis Jones Act operators.

Matson operates an efficient fleet of container and container/trailer vessels carrying primarily containerized cargo and automobiles between U.S. Pacific Coast Ports of Los Angeles, Oakland, Portland and Seattle and the Port of Honolulu in regularly scheduled service. Cargo destined for the Neighbor Islands of Hawaii, Kauai and Maui is transshipped in Honolulu from the line-haul vessels to two Matson container barges and is delivered weekly to four Neighbor Islands Ports. Since 1970 Matson has invested over $300 million in vessels and barges built in United States shipyards pursuant to the Jones Act. Since Matson's Hawaii service exclusively involves the U.S. domestic trades, these vessels were built without the aid of construction-differential subsidy and Matson receives no operating-differential subsidy.

There is more than enough Jones Act vessel capacity now in the domestic trades. In the Maritime Administrator's December 9, 1983 Final Opinion and Order in Docket No. S-724, involving the Puerto Rican trade, the Maritime Administrator noted that undisbuted evidence had been presented in that case that the U.S.-Puerto Rico trade was overtonnaged in the southbound direction by 40% and in the northbound direction by 600%. In 1988, the Puerto Rico Maritime Shipping Authority (PRMSA) purchased five additional Lancer class vessels that were formerly owned by United States Lines which PRMSA plans to operate in the U.S. domestic Puerto Rican trade.

In the Alaska trade, Sea-Land Service recently introduced three new Jones Act container ships which effectively doubled the previous capacity of Sea-Land's Alaskan fleet. Within the last two years, Crowley Maritime added second decks for trailers on its rail car barges used in the Alaska trade. In 1983 a new carrier, Seaway Express Corporation, entered the Alaska trade with two triple deck trailer barges which MarAd since took possession of when Seaway defaulted on the Title XI loan. It appears very likely that these triple deck barges soon will be redeployed in the domestic trades under new ownership.

Approximately one year ago, Sea-Land Service replaced United States Lines in the Pacific Coast Hawaii trade as Matson's primary competitor and promptly announced a 48% increase in its Hawaii cargo fleet capacity, relative to the capacity which had traditionally been operated in the Pacific Coast-Hawaii trade by United States Lines. In February 1987 American President Lines applied to the Maritime Administrator for permission under Section 805(a) of the Merchant Marine Act, 1936 to

enter the Pacific Coast-Hawaii trade and provide weekly westbound sailings from the U.S. Pacific Coast to Honolulu (MarAd's written consent is required because American President Lines receives federal operating-differential subsidy). The Administrative Law Judge is currently holding hearings on APL's request. One of the many reasons for Matson and other unsubsidized Hawaii trade operators opposing the APL application is that it is projected that even without APL, there will be a 44% excess carrying capacity in the Pacific Coast-Hawaii trade in 1989. If APL were to successfully enter this trade, therefore, Matson and the other domestic carriers would face a severely overtonnaged condition.

Obviously, there is more than adequate vessel capacity in the domestic offshore trades to carry all of the cargo moving now or in the foreseeable future. These domestic trades are relatively small. If the government were to embark upon a build and charter program that would artificially produce additional unnecessary liner tonnage for use in these domestic markets, this inevitably would exacerbate the excess capacity problem. Overtonnaging leads to freight rate cutting. Rate cutting produces reduced profits or losses which, in turn, make it difficult or impossible for domestic operators to reinvest capital in U.S. shipyards for new and upgraded vessels. While a federal build and charter program for the domestic trades could produce some immediate benefit to U.S. shipyards, the benefit would be shortlived, at best. Domestic use of build and charter ships is not, in the long term, in the interest of either U.S. shipyards or national security due to the detrimental impact this policy will have on the financial standing of existing Jones Act companies which are today the U.S. shipyard's best -- and only -- commercial customers.

In addition, build and chartered ships employed in the domestic trades present a very grave danger that the charter rates would give the charterer an unfair economic advantage over its Jones Act competitors which have built their own vessels without government aid. More specifically, Section 1404 of H.R. 4662 contemplates that the Secretary of the Navy would incorporate sealift enhancement or national defense features into build and charter vessels and that the Secretary of the Navy would make additional payments to the charterer as compensation for the loss of vessel capacity or efficiency attributable to these sealift enhancement or national defense features. This is, obviously, an attempt to create parity between operators who have purchased ships constructed strictly for commercial operation and the charterer of a government-built ship. Separating out and fixing compensation for the costs of military features will inevitably be complicated and involve highly subjective judgements. The process of setting the level of these "additional payments" to assist a charterer in becoming financially competitive with operators of non-build-and-charter ships will be controversial and presents a real potential for an ultimate charter rate giving the charterer an unfair economic advantage vis-a-vis operators who must privately finance complete vessel construction costs.

Section 1405(b) further attempts to address the problem of economic parity between build and charter vessels and privately financed vessels. Specifically, the Secretary of Transportation is prohibited from chartering a vessel constructed under this proposed program for less than the capital cost of the vessel, not including sealift enhancement or defense features, less reasonable depreciation based on a twenty year vessel life. Again, separating and deducting the costs of military features is highly complicated, and creates an additonal opportunity for the charter rate to be unfairly advantageous relative to operators who must privately finance complete vessel construction costs.

All of the above assumes, of course, that the build and charter ships would operate solely in the domestic trades. In fact, assuming arguendo that the charter rate would indeed accurately reflect the "capital costs of the vessel", as required by Section 1405, it is highly probable that any ship built under this program would operate solely in the domestic trades since the capital costs of a ship constructed in a U.S. shipyard would make the vessel uneconomic in the foreign trades.

Since H.R. 4662 contemplates that build and charter ships would be operated in the foreign commerce of the United States or international

trades, however, it must be assumed that through some means or at some point in time the charter rate would be comparable to the costs of building a ship on the world market, which is one-half to one-third of the price of building in the United States. Since the domestic trades are relatively small and already adequately served by existing Jones Act carriers, it is likely that the operator of a build and charter ship would wish to operate the same vessel in both the foreign and domestic trades. Assuming, again, that it is possible under Section 1405(b) to charter a ship at a rate that will enable the operator to compete in the international trade, there is no realistic way to readjust that charter rate for partial use of the chartered vessel in competition with the Jones Act fleet.

An internationally competitive charter rate will inevitably give the build and charter operator an unfair advantage over Jones Act operators if the build and charter vessel can call domestically enroute to or from its foreign destination. If it should appear to the financial community that vessels acquired at world prices could enter the domestic trades, the market value of our existing Jones Act fleet would immediately be reduced to world prices but the operators would continue to have original cost for depreciation on their books.

Finally, the domestic trades are already completely reserved by the Jones Act to United States shipyards. American operators possess sufficient capital that if an ocean transportation need arises in the domestic trade, a Jones Act ship will fill that service void. Matson itself recently spent $18.8 million to construct two 350 foot self sustaining barges to expand capacity to deliver Neighbor Islands cargo. In 1987 Matson spent $48 million converting the SS MATSONIA from a roll-on, roll-off trialer ships to a combination lift-on, lift-off and roll-on, roll-off carrier at Todd Pacific Shipyard Corporation in San Pedro, California. Matson also announced plans in 1987 to build two new diesel-powered container ships designed specifically for the Hawaii trade with delivery anticipated in the early 1990s. Currently Matson's Capital Construction Fund contains $244 million which, as a practical matter, is dedicated to the construction of new ships and containers to serve the U.S. domestic trades. There is no need for the federal government to artifically produce more vessel tonnage that would overtonnage the domestic U.S. trades and create unfair competition for the existing Jones Act fleet.

Thank you for this opportunity to present the views of Matson Navigation Company, Inc..

National
Marine Engineers'
Beneficial
Association

Affiliated
with the AFL-CIO

444 North Capitol Street • Suite 801 • Washington, D.C. 20001 • (202) 638-5355

June 10, 1988

The Honorable Walter B. Jones
Chairman
Committee on Merchant Marine
& Fisheries
1334 Longworth Building
Washington, D.C. 20515

Dear Mr. Chairman:

The National Marine Engineers' Beneficial Association -- representing some 50,000 licensed and unlicensed American merchant mariners -- has carefully reviewed H.R. 4704. This bill would authorize the National Oceanic and Atmospheric Administration (NOAA) to modernize and expand its fleet of ocean research vessels. By way of background, it is important to know that we have many years' experience with NOAA. Our Licensed Division has represented engineers on board its vessels for over 25 years, and our Unlicensed Division has represented other crew members on NOAA vessels even longer. Our organization is highly familiar with the operation and management of this fleet.

There is no question that the existing NOAA fleet is aging rapidly. We fully concur that if the mission of NOAA is to continue to be performed, and we believe that it must, then the equipment to perform this mission will require significant modernization and replacements. It should be noted that such modernization and replacements will be a significant boost to America's shipbuilding industry; Navy shipbuilding has leveled off, and commercial work on large vessel construction has come to a complete halt.

There is, however, another issue that should be raised at this point in connection with these NOAA vessels and their mission concerning their operation. Our question is: "will they be operated in the most efficient and economical manner by NOAA, or should we at least consider whether their operation might better be the responsibility of some other agency -- not in terms of the scientific mission of NOAA

C. E. DeFRIES, President
C. E. DODSON, Secretary-Treasurer
R. T. McKAY, Executive Vice President
A. P. SASSO, Vice President
M. H. PELFREY, Vice President

but in terms of the actual operation of the vessels?" In 1978, the Comptroller General reported that the operation and management of oceanographic ships was "fragmented and decentralized," contributing to the "inefficient and uneconomical" use of the fleet. The report, a copy of which is attached, singled out NOAA for its "ineffective management." Unfortunately, what was true then, is still true today.

We would urge that two actions be taken as part of this bill. First, the GAO study should be updated. Second, we believe that consideration should be given to transferring operation of the NOAA fleet to the Military Sealift Command (MSC), a part of the Navy. With this consideration in mind, a study of this alternative should be authorized as part of this legislation, or, in its place, the Committee might want to ask the MSC to submit a management proposal which the Committee could then consider. The MSC already operates 42 civilian-manned, government-owned ships as well as managing or supervising 63 additional ships either directly or indirectly through contractors. Some of these vessels are even oceanographic vessels, in this case operated for the Navy. Many of these vessels are operated for other Federal agencies through Industrial Funding, Revolving Accounts under Memoranda of Understanding negotiated in accordance with the "Economy Act of 1932". This arrangement allows these other agencies to take full advantage of the Navy's ship operating expertise and to concentrate their personnel and resources directly on their mission without the burden of managing a shipping operation as a side line. The MSC has in place the administrative and logistical infrastructure in U.S. ports -- indeed worldwide -- to assume operation of the NOAA fleet. We believe that a study would reveal that significant economies of scale could be achieved.

We thank you for your consideration of our views on this issue.

Sincerely yours,

C.E. DeFries
President

CED/kmb

* Enclosure

cc: Members, Merchant Marine Subcommittee

National Marine Engineers' Beneficial Association

* (Editor's Note: GAO Report CED-78-125, 16 June 1978, "Need for Improving Management of U.S. Oceanographic Assets," can be found in Subcommittee on Merchant Marine files.)

EXTRACTED FROM "LLOYD'S LIST," WEDNESDAY, JUNE 8, 1988

Working group to draw up reference range

Japan in ship price deal with EEC

JAPAN and the European Economic Community have agreed to set a reference range for ship prices as part of a concerted drive to bring stability to the world shipbuilding industry.

The decision came during talks between EEC officials and Japan's Transport Ministry and follows a bilateral agreement on co-operation in April.

The two sides are to set up a working group later this month which will provide details on a reference range, which it is hoped, will stop shipbuilders quoting for work at prices below the cost of production.

The director of international shipbuilding affairs at the Transport Ministry in Tokyo, Nobutaka Nanbu, said: "No details have been mapped out yet, but elements for creating a price range will include ship types, delivery dates and regions. Governments should not get involved too much, but the situation is serious."

By Terry Macalister, Industrial Correspondent

Mr Nanbu said the working group was likely to set three reference prices for EEC, Japan and South Korean construction yards to take account of different labour and production costs.

The EEC and Japan plan to discuss the issue with South Korea and Finland.

Talks between the EEC and Japan have progressed quickly since the former threatened to impose a special tax on foreign-built ships using EEC ports to defend the home sector against competition from Japan and South Korea.

The EEC has said that it is not seeking any expansion of the European shipbuilding industry but is keen to ensure that it remains a reasonable segment of the local economy.

Japanese yards have almost half of the world's shipbuilding market while South Korea has 17% and the EEC 14%, some EEC figures show.

There have been tremendous cutbacks in both western European, Scandinavian and also Far East shipyard capacity due to a low level of new ship orders which has led to cut-price competition.

Ironically, signs that all shipbuilding nations have finally decided that they must work together or face an even more turbulent market, come at a time when shipowners are beginning to express more confidence about the future.

The EEC and Japan signed a five point plan two months ago and promised to make clear the basis on which prices were set.

The talks last week between Japan and EEC officials have started work on this and the working group will draw up price levels under which particular yards will be asked not to undercut.

● Japanese yards face losses — Page 3

Japanese yards face major VLCC losses

LOSSES of up to Yen2 billion ($15.8 million) on VLCCs are being incurred by some Japanese shipyards, according to industry sources.

Newbuilding prices quoted in Japan recently are believed to have fallen in some cases from the once profitable level of around Yen9bn for a VLCC to between Yen7.5-8bn in a bid to remain competitive.

The rise in international prices of large tankers has been wiped out for Japanes builders by the escalating value of the Yen against the dollar in which contracts are normally signed.

Efforts are increasing to tie up Yen-based newbuilding contracts so that owners are made to carry the exchange rate risks. Other currencies, such as the German Mark, are also being put forward but such quotation manoeuvres are meeting resistance.

From Geoff Garfield, Tokyo

Japan's largest shipbuilding company, Mitsubishi Heavy Industries (MHI), says it has taken steps to hedge against exchange rate risks, as well as trying to minimise construction costs which have been reduced by about 3-4% a year.

It claims to have in its Nagasaki facility the most competitive yard constructing VLCCs in Japan, but even the resourceful MHI is believed to be facing possible losses on two VLCC newbuildings.

Other ships contracted at MHI will be profitable, says the company which leads the Japanese industry with an orderstock that includes two 125,000 cubic metre LNG carriers to be used in the Australian North West Shelf to Japan gas project.

It has also received a letter of intent from NYK for the construction of a 960 passenger cruise ship and is expecting to execute the contract in the first half of this month.

Interestingly, much of the materials and equipment for the cruise ship could come from Europe, the leader in large passengership construction. MHI has already despatched a team to study European manufacturers' prices.

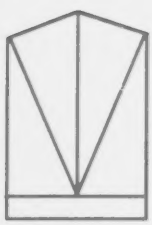
A concerted effort is being made in Japan to source materials from lower cost manufacturers, even if this means looking abroad.

Even in South Korea, higher material costs are having a marked impact. Recently, an executive of Daewoo was reported as blaming materials for the rise in VLCC prices there to over $65m (Yen8.2bn).

In Japan and South Korea, VLCCs are still seen as providing a vital baseload of work and both countries, not surprisingly, have as recently as April held further discussions on the need to improve ship prices.

Shipbuilders
Council of
America

SPECIAL REPORT



SHIPBUILDING AID IN THE WORLD'S LEADING SHIP-PRODUCING NATIONS

OCTOBER 1988

SHIPS ON ORDER AT THE WORLD'S TOP-PRODUCING SHIPBUILDING CENTERS AND TYPES OF SUPPORT PROVIDED FOR SHIPYARDS IN THESE NATIONS

Which countries are building the most number of ships today and how does each of these countries support its shipbuilding industry? Is there a link between active government support of shipyards and the ability to be competitive in the world marketplace?

Statistics for the number and origin of ships currently on order throughout the world provide a base for exploring answers to these questions. Ships on order in 33 countries were listed in the July 21 issue of Fairplay. For our purposes, we have limited the list to the 17 countries with the most orders.

SHIPS ON ORDER BY COUNTRY OF BUILD, APRIL-JUNE 1988

Country	No. of Ships	Country	No. of Ships	Country	No. of Ships
1. Japan	165	6. West Germany	43	12. Denmark	26
2. S. Korea	135	7. Bulgaria*	42	13. Netherlands	23
3. Poland*	50	8. Romania*	38	East Germany*	23
4. China*	48	9. Brazil	35	14. Finland	22
5. Yugoslavia*	46	10. Spain	32	15. USSR*	20
		11. Italy	30	16. Taiwan	16

* Govt.-controlled

Seven of the top seventeen ship-producing countries listed above have communist governments with centrally planned economies that control their maritime industries. The ten remaining "free-world" countries are building the following kinds of ships:

TOTAL ORDERS BY SHIP TYPE FOR COUNTRY OF BUILD, APRIL-JUNE 1988

	Type of Ship:						
Country	Dry Cargo	Container	Tanker	Bulker	Ro-Ro	Total	dwt
1. Japan	32	11	67	51	4	165	9,932,956
2. S. Korea	12	13	73	33	4	135	12,536,780
3. W. Germany	14	20	5	-	4	43	879,765
4. Brazil*	2	2	21	5	5	35	1,345,250
5. Spain	14	-	16	1	1	32	1,196,570
6. Denmark	8	8	9	-	1	26	733,630
7. Netherlands	8	-	12	-	3	23	74,975
8. Finland*	11	-	10	-	1	22	84,100
9. Italy*	6	8	8	4	4	30	1,033,510
10. Taiwan	-	8	2	6	-	16	1,502,800

* No new contracts during the quarter

The next table is a comparison between total orders and orders placed during the quarter.

SHIPS ON ORDER BY COUNTRY OF BUILD, APRIL-JUNE 1988
TOTAL ORDERS AND NEW CONTRACTS FOR PERIOD

Country	Total on Order		Total New Contracts	
	Ships	dwt	Ships	dwt
Japan	165	9,932,956	46	2,298,938
S. Korea	135	12,536,780	21	1,557,650
W. Germany	43	879,765	12	255,700
Brazil	35	1,345,250		
Spain	32	1,196,570	2	127,000
Denmark	26	733,630	4	12,200
Netherlands	23	74,975	12	37,175
Finland	22	84,100		
Italy	30	1,033,510		
Taiwan	16	1,502,800	4	275,260

How many of the free-world's top-ten ship-producing nations listed above have aid programs that directly or indirectly assist their shipyards? The answer: ALL of them. This report quantifies these measures of assistance.

The following quote is taken from the Introduction to Maritime Subsidies, a report prepared by the Maritime Administration's (MARAD's) Office of International Activities and published in June 1988. The report is intended as a reference volume on the kinds of aid provided by 54 countries for their respective maritime industries--shipping and shipbuilding.

"A national merchant fleet is believed to be of vital economic and security interest by many of the world's governments. In order to ensure that these interests are upheld, many governments have developed aid programs to support their maritime industries."

The MARAD volume is the primary source for the subsidy information contained in this report, supplemented by Measures of Assistance to Shipbuilding, published by the Organization for Economic Cooperation and Development (OECD), 1987, and miscellaneous other sources.

The kinds of aid countries provide to enhance the ability of their shipyards to successfully compete for shipbuilding contracts varies, but usually includes one or more of the following:

- Long-term, low-interest loans to ship buyers;
- Government guarantees for loans;
- Construction subsidy grants to the shipbuilder;
- Government funds to finance scrapping of uneconomical ships and/or to reduce the overcapacity in shipbuilding facilities;
- Favorable tax and/or depreciation benefit schemes;
- Customs duty exemptions or rebates for imported materials used in ship construction; and
- Research and development funding to advance ship technology.

Favorable Financing - In general, low-cost financing--that is, loans offered by public and private banks for a substantial portion of a ship's cost, repayable over a long period of time at low rate of interest--has been favored by Japan (#1), Brazil (#4), and Denmark (#6), in recent years, with Brazil and Japan having utilized this method of assistance particularly heavily.

For example in FY 1987, Japan provided approximately $582.5 million in ship production loans. Of this, $518.5 million was funded through the Japan Development Bank for the purchase of highly modernized ships, and $64 million was for export credits through the Japan Export-Import Bank. Finland (#8) provides interest subsidy loans to Finnish shipowners as needed.

Subsidy Grants - The method of government aid for shipbuilding preferred in West Germany (#3), Spain (#5), and the Netherlands (#7) is to provide direct construction subsidies to shipyards for a percentage of the contract price. Although in theory, Germany limits its subsidies to 20 percent of the ship contract price; in practice, these grants have reached the 28% ceiling allowed by the Sixth Directive of the European Community (EC). Germany's 1988-1991 budget for shipyard subsidy grants is DM 700 million, which is approximately $372 million, funded two-thirds by the federal government and one-third from state governments.

Toward the end of 1987, Spain had reduced its shipyard subsidies to the EC's 28 percent maximum. The Netherlands (#7), in light of the subsidies allowed by the EC's Sixth Directive, created a new subsidy grant program funded at approximately $98 million for 1987 through 1989, replacing a program of decreasing subsidies that ended Jan. 1, 1987. Individual grant subsidies under the new program range from 3 to 14 percent.

Loans and Subsidies - Italy (#9) has been providing long-term loans and interest subsidies (about $97.4 million in 1986) to ship buyers as well as direct subsidy grants to shipyards (25%, 15%, and 11% depending on shipyard size in 1984-1986. Budget: about $500 million). Details of Italy's latest program were not available, although the country has said the new program will be within the guidelines of the Sixth Directive.

South Korea (#2) has also utilized favorable loans to ship buyers and the Korean government has alluded to subsidization of shipyards although details of the shipyard subsidies were not specified in the source materials used for this report. Even less information is available on Taiwan (#10), which has provided public financing for the four-year program of the Ministry of Communications for 32 ships and has claimed granting an unspecified amount of construction subsidies for ships ordered from and registered in Taiwan.

Government Guarantees - Denmark provides loan guarantees for ships ordered by Danish operators and for the construction or conversion of small freighters. Finland's guarantees cover losses caused by cost escalation during construction of export ships. In Germany, the coastal states may grant credit guarantees for ships built within their boundaries. Japan provides guarantees for debt payments related to the reduction of shipyard facilities (approximately $370.4 in FY 1987).

EXAMPLES OF GOVERNMENT FUNDING FOR SHIPYARD AID

Country	Purpose	Amount
JAPAN (#1)	a. Ship Production Loans, FY 1987	
	JDB for purchase of highly modernized ships (135 yen=$1)	$518,520,000
	Ex-Im Bank for export credit (125 yen=$1)	$ 64,000,000
	b. Shipyard Reorganization Aid, FY 1987	
	Govt. purchases of redundant docks, lands (135 yen=$1)	$222,222,000
	Govt. guarantees for debt payments related to yard facilities reductions	$370,370,000
WEST GERMANY (#3)	a. Ship Construction Subsidy Fund, FYs 1988-1991 (DM 700 million)	$372,000,000
	b. Loan Subsidies to Shipowners, For exports to developing countries, FYs 1987-1989	$258,600,000
	Interest-free loans for shipbuilding, FY 1987 fund (discont. 7/1/87)	$ 84,800,000
DENMARK (#6)	a. Loans to Shipowners, 1985	
	Govt. cost of home credits	$ 8,300,000
	Govt. cost of export credits	$ 42,200,000
	b. Minister of Industry Guarantees, 1986	
	Building of small cargo ships	$ 16,700,000
	Building of other ships	$ 69,800,000
	c. Other Ship Building Guarantees, 1986	$139,600,000
ITALY (#8)	a. Ship Construction Subsidy Fund, FYs 1984-1986	$500,000,000
	b. Interest Subsidies to Shipowners, FY 1986	$ 97,400,000
	c. Shipyard Reorganization Aid FYs 1984-86	$ 36,000,000

Shipyard Reorganization and Ship Scrapping Aid - Although Japan does not give subsidy grants to yards for ship construction, the government does provide aid for reorganizing, modernizing, or otherwise reducing shipyard capacity. In April 1987, the Japanese government established a five-year shipyard rationalization program, which provides for government purchases of redundant docks and land (FY 1987 funding: $222.2 million) and for government guarantees for debts associated with operational adjustments and retirement payments associated with shipyard reductions (FY 1987 funding: $370.4 million). Tax benefits are also provided.

From December 1978, Japan has provided financial assistance to scrap uneconomic oceangoing vessels as a method of reducing the world's oversupply of ships. Since 1986, however, the utilization of this funding has decreased as ship scrapping has becoming less popular, due in large measure to the extremely volatile nature of scrap prices.

Italy, which reorganized 90 percent of its shipyards into the publicly-owned FINCANTIERI between 1984-1986 and provided $36 million in aid, currently provides funding to shipyards equal to 20-30 percent of the investment costs for reorganization or conversion. Italy also proves government assistance for scrapping ships above 150 tons. Spain's government assistance program for ship scrapping has not been very successful, probably because its compensation rates were too low. Currently, West Germany provides shipyard modernization and conversion funding through the coastal states.

Ship R&D Funding - Government assistance for ship-related research and development is provided by the governments of Japan, West Germany, Denmark, the Netherlands, and Italy. In Japan, annual research funding is provided through the Ship Research Institute attached to the Ministry of Transport (MOT). In August 1988, it was reported that the MOT was ready to finance the prototype of a high speed ocean cargo vessel, which will cost approximately $44 million.

The most recent figure available concerning shipbuilding R&D funding from the government of Germany was approximately $16.2 million for 1986. Italy's shipbuilding and ship propulsion R&D contribution in that year was approximately $25.6 million. Denmark's ship research support amounts to about $.5 million annually. Ship research activities in the Nether- lands is funded on a 50:50 basis by the government and the maritime industry.

Tax Benefits - In nine of the top-ten ship-producing countries, shipbuilders have been exempted from customs duties for materials used in ship construction. The policy for the tenth country, the Netherlands, was not included in the source document used for this report.

Other tax reductions and exemptions for investing in ships vary from country to country. For shipowners, a major tax write-off is linked to depreciation. Advance write-offs for depreciation up to a certain percentage of the purchase price is currently allowed before the ship is delivered in South Korea, Finland, and Denmark. In addition to the regular depreciation allowed, special depreciation under certain conditions is allowed in Japan, Germany, and Denmark.

Another tax benefit allowed in Japan, Germany, Spain, Denmark, the Netherlands, Finland, and Italy is the availability of tax reserves for book profits on ships sold (or a substantial portion thereof). Japan, Spain, Denmark, the Netherlands, and Finland also allow other funds to be placed in tax reserve status.

The table on the following page summarizes the major kinds of benefits that assist shipyards in the free-world's top-ten shipbuilding nations. For purposes of comparison, the United States is also listed.

Immediately following the table, the categories of favorable financing, shipbuilding subsidy grants, and yard reorganization and ship scrapping aid are discussed in more detail. Finally, the appendix summarizes, in table form, the information used in the preparation of this report.

SUMMARY OF SHIPYARD-RELATED AID AVAILABLE
IN THE TOP-TEN SHIPBUILDING NATIONS AS COMPARED WITH THE UNITED STATES

Country	Shipowner Favorable Financing	Ship-Building Subsidies	Yard Reorg. Aid; Ship Scrapping	Ship R&D Funding	Tax Benefits	Import Duties Exempt.
1. JAPAN	Yes ***	Unknown	Yes **	Yes *	Yes	Yes
2. S.KOREA	Yes	Yes Unspeci-fied	Unknown	No	Limited	Yes
3. WEST GERMANY	Yes	Yes ***	Yes-reorg. Fed/ State	Yes	Yes	Yes
4. BRAZIL	Yes ***	Not Govt.	No	No	Unknown	Yes
5. SPAIN	Yes	Yes ***	Limited	No	Unknown	Yes
6. DENMARK	Yes	Yes **	No	Yes	Limited	Yes
7. NETHER-LANDS	N/A	Yes *	No	Yes	Limited	Unknown
8. ITALY	Yes **	Yes **	Yes	Yes	Yes	Yes
9. FINLAND	Yes	No	No	Unknown	Yes	Yes
10. TAIWAN	Yes	Yes Unspeci-fied	Unknown	No	Yes	Yes
UNITED STATES	No	No	No	Limited	Limited	Limited

*** of primary importance
** very important
* important

LOW-INTEREST, LONG-TERM FINANCING ENHANCES SHIPYARD COMPETITIVENESS

Most of the top-ten shipbuilding nations of the free world make available long-term, low interest loans to ship buyers for a substantial percentage of ship cost at a low rate of interest. The emphasis on this type of financial assistance, however, varies from country to country.

Member countries of the Organization for Economic Cooperation & Development (OECD) are supposed to subscribe to the provisions of the OECD Understanding on Export Credits for Ships, which limits loans for export ships to 80 percent of the ship, repayable at a maximum of 8½ years from delivery, at a minimum interest rate of 8 percent per year. (Of course, if commercial rates are below 8 percent, then the commercial market would provide ship financing.)

According to a report in Shipping & Trade News, Sept. 2, 1987, Japan has repeatedly proposed that the OECD lower its credit terms to reflect lower worldwide interest rates, and an article in the Oct. 7, 1987, issue of the same magazine reported that Japan's Export-Import Bank had financed a contract last year between Hitachi Zosen and the Overseas Shipholding Group of the U.S. at 5 percent interest for two 260,000 dwt VLCCs. In general, however, Japan, Denmark, Italy, and Finland provide export credit terms at OECD rates. Germany offers 2 percent interest subsidies to bridge the gap with OECD rates.

Other kinds of ship financing with attractive terms offered in the world's top-ten ship producing nations are described below:

Japan (#1) - To encourage the construction of highly modernized oceangoing vessels such as containerships and LNG carriers, the Japan Development Bank (JDB) provides Japanese shipowners with 60 percent financing, repayable over 10 years after a 3-year grace period. The interest rate during the first part of 1988 was 5 percent. Private banks cover 20-40 percent of the ship's cost at the prime rate.

For other types of ships, the JDB provides 50 percent financing with commercial banks covering 25 percent. (JDB's financial resources are capital borrowings from the government and the capital market.) For Japan's FY 1987, the government provided $518.5 million through the JDB for the purchase of highly modernized ships, as well as funding $64 million in export credits through the Export-Import Bank.

South Korea (#2) - Loans to shipowners have been available in Korea to cover 90 percent of the shipbuilding cost (92 percent for a containership), with repayment for local funds (covering 70 percent of construction) at 10 percent interest over 8 years, with a 2½-year grace period. There are indications, however, that these programs are under review and have lead to reports of options ships cancelled by South Korean shipyards.

West Germany (#3) - Under certain conditions, West German shipowners can receive interest-free loans until 1990. In 1987, the West German government provided $84.8 million for this purpose. The government also provides interest subsidies (2 percent in 1987) for loans to build ships for export to developing countries. The 1987-1989 budget for this purpose is approximately $258.6 million.

Brazil (#4) - A number of financial packages offering extremely favorable terms is offered by Brazil to entice both local and foreign owners to buy Brazilian ships. One of these schemes features the buyer obtaining a foreign bank loan on which the Bank of Brazil pays the interest.

Spain (#5) - Loans are available to cover 85 percent of the cost, repayable in 12 years with a 2-year grace period. The minimum interest rate is 8 percent, except for fishing vessels, which is 11 percent.

Denmark (#6) - As a temporary measure to encourage ship orders at Danish and EEC yards, offered 80 percent credit for ships ordered by the end of 1986 and delivered before the end of 1989, with repayment at 8 percent over 14 years, including a 4-year grace period. Various Danish shipping firms own six big shipyards in Denmark that employ about 75 percent of the total shipbuilding labor force.

The Netherlands (#7) - The Dutch government can provide an interest subsidy when the need exists. From 1980 through 1985, for example, $267.8 million in interest subsidies was provided. Currently, because the market interest rate is below 8 percent, ship financing is a commercial matter tied to commercial financing.

Italy (#8) - Fifteen-year loans authorized by the appropriate Italian government office can be made for up to 70 percent by the Instituto Mobiliare Italiano and other financial institutions for the construction, modernization, and repair of ships. If the Italian government determines that a need exists, temporary incentives are provided to Italian shipowners to purchase ships. Since 1982, for example, Law 261 provides for interest subsidies of 2.75 to 3.2 percent over 12 years. Interest subsidy funds were approximately $97.4 million in 1986. (Approximately 90 percent of the shipbuilding in Italy is owned and operated by FINCANTIERI, a holding company in which IRI, an agency of the Ministry of State Holdings owns 100 percent of the stock.)

Finland (#9) - To promote the acquisition of small ships suited for inland and coastal transport or for foreign trade, Finland provides interest subsidies.

Taiwan (#10) - For the 4-year Ministry of Communications program in Taiwan for the construction of 32 ships, public financing is provided at 80 percent, repayable over 12 years at 8½ percent interest.

Government Guarantees

In addition to the favorable financing practices described above, governments in Japan, West Germany, Denmark, and Finland provide guarantees of various loans associated with shipbuilding.

As part of a comprehensive program to assist shipyards in reducing excess capacity, Japan guarantees payment of debts associated with the scrapping or reorganization of redundant building berths or docks at shipyards with 5000 grt or more capacity. Japan also has a credit guarantee program to aid shipowners in scrapping uneconomical ships.

Coastal states in West Germany may grant limited credit guarantees for the purchase of commercial ships built in their respective states.

The government of Denmark guarantees ship purchases by Danish shipowners (limited to $48 million in 1986, the most recent figures available), and guarantees up to $14 million per year for the construction or conversion of small freighters.

Finland provides government guarantees to cover losses caused by cost escalation during construction of export ships. In addition, Finland's State Guarantee Board may provide guarantees for the acquisition of ships less than 10 years old. Specific guarantee amounts vary with the individual shipowners, but the maximum guarantee fund is $417 million.

SHIPYARD SUBSIDY GRANTS IN THE WORLD'S TOP SHIP-PRODUCING NATIONS

EC Subsidy Policy - Within the European Community (EC), shipbuilding subsidies are intended to close the gap between EC shipbuilding prices and those of yards outside the EC -- primarily Far East yards. The EC's Sixth Directive, effective since January 1, 1987, sets a subsidy ceiling of 28 percent of the contract price of a new ship, if the contract price is over $ 6 million, and a 20 percent ceiling for a new build with a lower contract value. (Spain and Portugal, as new EC members, have a four-year exemption from the ceiling.) If several EC yards are competing for an order, the usual practice is for the Commission to apply the lowest level of state aid.

The subsidy policy contained in the Sixth Directive, which is in force until 1991 and is subject to annual revisions, includes direct aid to shipyards and some forms of indirect aid, such as investment aid to shipowners and tax incentives to investors. Not counted against the EC subsidy ceiling is aid for shipyard restructuring directed toward irreversible capacity reductions.

Unlike previous EC directives, the Sixth Directive does not require the progressive reduction in subsidies with the goal of eventual elimination; however, it does require the most complete reporting on state aids ever undertaken. These programs, now more transparent, will be the subject of an EC report to be issued later this fall.

West Germany (#3) - As the world's third-place ship-producing country and the leading EC shipbuilding nation, West Germany has made subsidies the primary focus for shipyard assistance in the construction of high technology vessels.

In general, Germany allows subsidies of up to 20 percent of the contract value when required to be competitive against other bidders, with two-thirds of the subsidy coming from the federal government and one-third from the state in which the shipyard is located. However, Germany will grant subsidies to the 28 percent level if needed for their shipyards to win the competition.

These subsidies are structured by the Ministry of Economic Affairs and are managed through a quasi-public sector agency known as the Credit Institute for Redevelopment. The 1988-1991 budget for direct aid is DM 700 million (approximately $371 million).

The EC Commission's Sixth Directive permits member states to exclude from the subsidy ceilings any aid provided to developing countries. Thus Germany has a second program, financed by the Ministry of Economic Cooperation, which has provided 25 percent subsidies to the HDW and Bremer Vulkan shipyards to win contracts for orders from Zim Israel and a Singapore-flag company. These subsidies were contingent on certification of Israel and Singapore as developing countries.

The federal government of Germany holds a 55 percent position in the HDW shipyard, with State Schleswig-Holstein holding a 26.1 percent position. Equity financing was not raised in private capital markets, but rather from appropriated funding sources.

Some of Germany's shipyards, all of which are managed as private enterprises, have extensive equity ownership by public sector authorities. The State of Breman owns 39 percent of the ordinary capital of a medium-size shipyard located within its territory. State Schleswig-Holstein owns 25 percent of a large shipyard, of which the remaining 75 percent is held by the joint stock company of a state-owned steel mill. In addition, the city of Flensburg holds 15.5 percent of the ordinary capital of a medium-size yard.

Spain (#5) - Spain's shipbuilding industry is owned by the government's National Institute for Industry (INI) but is run by three private companies. A relatively recent newcomer to the EC, Spain has been working toward reducing government subsidies to the 28 percent maximum contained in the EC's Sixth Directive. Toward the end of 1987, Spain limited direct subsidies for ships valued at over 14 million European Currency Units (ECUs) and at 19 percent for vessels valued at less than 6 million ECUs. Refits benefit from a 20 percent subsidy.

Denmark (#6) - Assistance in this country, in which the Danish shipping firms own six big shipyards that employ about 75 percent of the total shipbuilding labor force, favors financing schemes for shipowners rather than grants to shipyards.

The Netherlands (#7) - In 1980, the Dutch government budgeted for direct subsidies to the shipbuilding industry. Each year the amount budgeted for the subsidy fund was reduced. By the end of 1986, the Dutch government had intended to abolish this aid altogether.

During 1985 and 1986, a separate budget was set up for each yard that had succeeded in producing sea-going vessels during the 1981-83 reference period. Out of this budget, equal to .75 percent of the yard's average annual turnover during the reference period, production aid could be granted for 5-10 percent of the contract price.

The Dutch government had intended to abolish this aid program altogether by the end of 1986. However, because of the government subsidies allowed by the EC's Sixth Directive, the Dutch government decided to put a new program in places at the time information was being collected for the MARAD report.

Italy (#8) - Under a three-year program ending December 31, 1986, Italy provided direct subsidies for the construction and repair of ships at 25, 15, and 11 percent to small, medium, and large shipyards, respectively. Amounts budgeted for the program approximated $500 million. According to the U.S. Maritime Administration (MARAD) report dated June 1988, the Italians are drawing up a new text within the framework of EC regulations. (Shipyard reorganization aid is discussed in another section.)

Outside of the EC, two of the remaining five countries in the top ten--Japan (#1) and Finland (#9) do not provide government subsidies directly to shipyards for ship construction. (Aid from the Japanese government to reduce shipbuilding capacity is discussed in another section.)

Brazil (#4) levies a tax on shipping companies. These revenues go into a fund that is earmarked for the purchase, construction, and modernization of ships. That portion of the revenues allotted to the Merchant Marine Fund can provide 25 percent subsidies to Brazilian shipping companies for the purchase of Brazilian vessels.

Korea (#2) and Taiwan (#10) have provided government subsidies for ship construction, but information on specific subsidy practices by these governments was not available.

GOVERNMENT AID TO REDUCE SHIPYARD CAPACITY AND SCRAP UNECONOMICAL SHIPS

During the 1960s and into the 1970s, orders for new cargo ships--particularly tankers--were placed in record numbers. Shipyards worldwide geared up to fill the orders. In just a decade, the shipbuilding centers of Europe had increased capacity by 136 percent and Japan by 650 percent.

The "golden age of shipbuilding" was brought to a halt by the oil crisis and subsequent quadrupling of oil prices in the mid 1970s. This situation precipitated a significant decrease in the growth of seaborne trade, and the oversupply of tonnage throughout the world became apparent. Consequently, traditional shipbuilding centers of the world found themselves with too much shipbuilding capacity for the shrinking new-ship market. Further exacerbating the problem was the entry into the competitive world shipbuilding market of countries with extremely low labor rates, namely South Korea and Taiwan.

Shipyard Reorganization Aid

Reduction of shipbuilding capacity has been carried out with government assistance in some countries. In Italy (#8), for example, current shipyard reorganizations or conversions are assisted by government contributions that correspond to 20 percent of investments for medium-small shipyards and 30 percent for large shipyards. From 1984-1986, Italy carried out a restructuring plan which placed 90 percent of its shipyards into FINCANTIERI, a holding company in which IRI, an agency of the Ministry of State Holdings, owns 100 percent of the stock.

In West Germany (#3), federal programs have been supplanted by state-sponsored programs. Currently, the coastal states fund approximately one-third to one-half of the costs associated with various shipyard rationalization efforts, ranging from modernization to diversification to shipyard closings, within their respective boundaries.

Japan (#1) probably has the world's most comprehensive government-assisted shipyard modernization and rationalization programs aimed at reducing its vast overcapacity. Although Japan has been the leading ship-producing nation in the world for over 20 years, shipbuilding is still a depressed industry in this country, which has had to contend with rising labor costs and appreciation of its currency (the yen), as well as the general market slump.

Government and private shipyards in Japan have been involved in a working partnership since the inception of the shipbuilding industry. An advisory council to the Ministry of Transportation (MOT), established in 1952, is made up of representatives from the shipping, shipbuilding, ship machinery, and steel industries, labor, educational institutions, and the press. Called the Council for Rationalization of the Shipping and Shipbuilding Industries (CRSSI), it has helped shape all of the major government policies related to shipbuilding, including the current shipyard modernization and rationalization effort.

Other industry associations have also been actively involved in shaping government policies and practices. Furthermore, the Japan Fair Trade Commission has allowed its major shipbuilders (24 yards with build-

ing capacity of 10,000 or more gross tons) to form a cartel, the goal of which is to limit ship production. In March 1988 the major shipyards reorganized from 44 (21 groups) into 26 (8 groups).

Under current law, funding has been established until April 1992 for the Japanese government to purchase redundant facilities and lands from shipyards with 5,000 or more grt capacity and to guarantee debts resulting from shipyard reorganizations. In addition, special tax reductions and exemptions have been granted.

Ship Scrapping Aid

The corollary to the reduction of the shipyards' physical facilities is the reduction in the world's oversupply of ships. The government of Japan in particular has provided financial incentives to shipowners to scrap large, uneconomic vessels. Italy also has provided subsidies for scrapping tonnage, and to a lesser extent, Spain. However, ship scrapping has not been very popular during the past couple of years, largely because of the instability of scrap metal prices.

In Spain, the low rate of government compensation ($9.50 per dwt for non-bulk vessels) probably contributed to the low volume of scrapped tonnage. In Italy, government funding for ship scrapping was established by law in 1984, at a rate of $36-$72 per ton for ships above 150 tons. The subsidy amount is in inverse proportion to the age of the vessel scrapped, tonnage scrapped must be at least twice that of tonnage to be built.

In FY 1978, the government of Japan instituted a subsidy program to scrap primarily uneconomic oceangoing vessels, providing financial assistance at approximately $9-11 per grt, raised to approximately $16-18 per grt in 1983. From December 1978 to October 1985, about 3 million grt was scrapped under this program. In 1986, a law was passed to establish new aid for scrapping efforts. In addition, a government guarantee fund was set up to remove existing mortgages on ships to be scrapped and to pay retirement allowances for seafarers employed on these ships. The guarantees will be in effect until August 1991.

Japan also has a program for owners of coastal vessels, whereby uneconomical vessels can be scrapped and new ones built. Ownership is held jointly with the government's Maritime Credit Corporation, which pays 70-80 percent of the construction cost. The shipowner pays a fee to use the vessel during the joint ownership period, which is from 7 to 15 years.

SUMMARY AND CONCLUSIONS

Since the mid-1970s, a variety of government assistance programs were instituted by nations anxious to preserve their shipbuilding capability. By 1981, however, it was already becoming clear that government intervention alone would not save shipyards, although it might extend some of their lives.

Today we have concrete examples that a yard's chances of survival do not necessarily increase in proportion to the amount of government assistance it receives. Sweden's shipbuilding industry, for instance--once second only to Japan and one of the most heavily subsidized--is virtually gone today. Great Britain's yards are another example. Nationalized in 1977, they have lost so much money that the government has adopted a privatization program to sell them off.

On the other hand, it has become just as clear that it is impossible for shipyards that receive no government support to compete successfully against those that do. Hans-Jakob Kruse, Chairman, Hapag-Lloyd AG, Hamburg, West Germany, expressed this reality thusly in a guest editorial published in The Journal of Commerce (Aug. 12, 1988):

> "The idea of removing competitive anomalies by reducing subsidies to zero is quite appealing . . . However, things are not quite that simple. Although there are many differences in political and commercial systems, countries nowadays are closely intertwined commercially, leaving little room for positive unilateral actions. It would certainly be a bold gesture if a country were to abolish all its subsidies, but the only result would be that its industry would henceforth be at a competitive disadvantage vs. its subsidized competitors."

The shipbuilding industry in the United States offers a vivid illustration of Mr. Kruse's premise. In 1981, when governments in Europe and the Far East were providing their shipyards with direct and indirect subsidies ranging from 10 to over 60 percent, the United States moved to discontinue funding of shipbuilding assistance programs contained in the Merchant Marine Act of 1936, including Construction-Differential Subsidies (CDS), Capital Construction Fund (CCF), Mariner Program (build and charter), and Title XI federal ship mortgage insurance.

As a result, the U.S. shipbuilding industry, forced to compete against heavily-subsidized foreign yards in an environment of unfair trade practices, has been devastated. From January of 1982 to the present, more than 75 shipyards or ship repair facilities have closed and over 52,500 production worker jobs have been lost.

It is no coincidence that shipyards in the world's leading ship-producing countries receive substantial government support. The objective of this report has been to quantify the kinds of assistance which have significantly contributed to the ability of these shipbuilders to capture the most ship construction orders.

TABLE 1A
SPECIAL FINANCING FOR SHIPBUILDING IN "TOP TEN" SHIP-PRODUCING NATIONS

Country	Loan Type
JAPAN (#1)	a. Loans to Japanese shipowners o For highly modernized ships: from govt.-sponsored shipbuilding program through Japan Development Bank (JDB), 60% financing at 5% interest (early 1988 rate) with repayment over 10 yrs. after 3-yr. grace period, plus 20% from private bank at prime rate (early 1988 rate, 5.5%) payable over 8 yrs. after delivery. o For other ships: 50% JDB financing plus 25% commercial bank financing, same terms and interest as above. o FY 1987 JDB loan fund: $518.52 mil. (@135 yen=$1). b. Export credit loans o 35% Export-Import Bank/35% private bank loans to Japanese shipyards for 8.5 years after ship completion, at approx. 8% interest. Same terms must be given by shipyard to shipowner, with 20% paid at delivery. o FY 1987 Ex-Im Bank loans avail. to Japanese Ministry of Transport: $64 mil. (@125 yen=$1). c. Loans for shipyard restructuring For 10 yrs. at 5% interest (2/88 rate).
S. KOREA (#2)	a. Loans to shipowners cover 90% shipbuilding cost (92% for containership) with repayment for local funds (covering 70% of construction) at 10% interest over 8 yrs. with 2.5 yrs. grace. b. Export loans to foreign shipowners or Korean exporters for up to 56% from Korean Export-Import Bank, with repayment over 8 yrs. at 9% interest, and loans from other banks for up to 24% with repayment over 5 yrs. at interest based on London Interbank Offered Rate (LIBOR).
W. GERMANY (#3)	a. Loan subsidies to shipowners o Interest free loans under certain conditions. Available until 1990. 1987 funding: $84.8 million. o 2% interest subsidies allowed for export ships to developing countries to bridge gap with OECD rates. 1987-1989 budget: $258.6 million.

TABLE 1A (Cont'd)
SPECIAL FINANCING FOR SHIPBUILDING IN "TOP TEN" SHIP-PRODUCING NATIONS

Country	Loan Type
BRAZIL (#4)	a. Ship export financing o Alt. 1: Buyer pays 10% down during construction and receives 90% loan from Bank of Brazil Foreign Exchange Section (CACEX) payable over 10 yrs. (with 1-yr. grace period) at 8.5% interest. o Alt. 2: Buyer obtains foreign bank financing with Bank of Brazil paying the 8.5% (or more if interest increases) over 10 yrs. o Current terms of CACEX export credit financing for foreigners: 15-20% down, 8% annual interest, 8 yrs. to pay (1-yr. grace period after delivery). b. Govt. loans to Brazilian shipping lines up to 85% of ship cost repayable over 15 years at 5-10% interest. c. Merchant Marine Fund (FMM) financing: o 90% loans available to Brazilian shippers for vessels constructed in Brazilian shipyards. o Up to 80% available to foreign carriers for purchase of Brazilian ships.
SPAIN (#5)	a. Loans to Spanish shipowners o Ship construction loans (except for tankers and bulkers) available from the Construction Credit Bank (BCC) and private banks for 80% of price at 8% interest, repayable in 12 yrs. with 2-yr. grace period. b. Ship conversion & repair loans to Spanish shipowners o Available from the BCC at 70% of the value at 8% interest for 5 yrs. with 1-yr. grace period. c. Export Credit for Ships The Banco Exterior and private banks provide export loans for 70% of the contract price for 7 yrs. at 6.9% plus various charges adding up to a gross rate of 8%.
DENMARK (#6)	a. Loans to shipowners from Ship Credit Fund o May not exceed 50% of ship value unless supported by supplemental security. Applies to foreign and Danish owners for ships built in Danish yards. Same rates to Danish owners for EC country-built ships. o Home credit fund, $418.7 mil; govt. cost, $8.3 mil.

TABLE 1A (Cont'd)
SPECIAL FINANCING FOR SHIPBUILDING IN "TOP TEN" SHIP-PRODUCING NATIONS

Country	Loan Type
DENMARK (Cont'd.)	b. Export credit for ships from Ship Credit Fund o OECD Understanding* export credit terms for foreign flag ships built at Danish yards for Danish citizens. o 1985 govt.-supported export credit costs, $42.2 M. c. Loans to shipowners, temporary measure 80% credit, repayment at 8% interest over 14 yrs., incl. 4-yr. grace period, for ships ordered from Danish or EC yards by end of 1986 and delivered before end of 1989. Supp. credit if required to buyers outside Denmark.
NETHERLANDS (#7)	a. Interest subsidies for shipowner loans Interest subsidy provided for; but current market interest rate is below 8%. 1980 through 1985, $267.8 M provided. b. Export credits for ships OECD Understanding export credit terms to foreign owners for ships built in Dutch yards.
ITALY (#8)	a. Loans and interest subsidies o Loans up to 70% made by the Instituo Mobiliare Italiano and other financial institutions for the construction, modernization, and repair of ships and authorized by the appropriate Italian govt. office, are repayable in 15 yrs (since May 1987). o Italian shipowners are allowed interest contributions of 2.75% of the contract price over 12 years; 3.2% interest for ships of less than 5,000 grt if used for transport of liquid bulk or liquefied gas or to 3,000 grt for all other units (since June 1982). Interest subsidy funds were approximately $97.4 million in 1986. b. Export credit Financing follows OECD Understanding terms.
FINLAND (#9)	a. Loans to Finnish shipowners (home credit) o Central Bank of Finland financing available to Finnish shipowners, ordering new or converted ships at Finnish yards, for 80% of ship cost, repayable over 8 yrs. 1987 interest rate: 8.5%.

*Organization for Economic Cooperation & Development Understanding on Export Credits for Ships: 80% (max.) credit, repaid in equal semiannual installments over 8½ yrs. (max.) from delivery, at 8% (min.) per year.

TABLE 1A (Cont'd.)
SPECIAL FINANCING FOR SHIPBUILDING IN "TOP TEN" SHIP-PRODUCING NATIONS

Country	Loan Type
FINLAND (Cont'd.)	b. Export credit Financing through the govt.-controlled Finnish Export Credit Ltd. at OECD Understanding rates. c. Interest subsidy loans Loans to Finnish shipowners for ships built in Finnish shipyards for domestic or foreign commerce generally at OECD-established rates. However, interest rates may be subsidized to match subsidies in other countries; e.g., 2% subsidies, so interest rate is 6% instead of OECD rate of 8%.
TAIWAN (#10)	4-yr. Ministry of Communications program for 32 ships Govt. providing public financing at 80% repayable over 12 yrs. at 8.5% annual interest.

TABLE 2A
GOVERNMENT GUARANTEES OF SHIPBUILDING LOANS IN TOP SHIP-PRODUCING NATIONS

Country	Description of Government Guarantee
JAPAN (#1)*	Govt. guarantees payment of debts associated with the scrapping or reorganization of redundant building berths or docks at shipyards with 5,000 grt or more capacity. FY 1987 budget: $370,370 mil. (@135 yen=$1).
W.GERMANY (#3)	Coastal states may grant limited credit guarantees for purchase of commercial ships if credits cannot be secured by ship mortgages.
DENMARK (#6)	Minister of Industry guarantees o Issued for building of small cargo ships. 1983 through 1986, each year: $16.7 million. o Other ships, 1986 total: $69.8 million. Other government guarantees o Up to $48 million in 1986 for ships ordered by Danish shipowners. o Up to $14 million per yr. for construction or conversion of small freighters. o Total of $139.6 million for 1986.
FINLAND (#9)	o Govt. guarantees covering losses caused by cost escalation during construction of export ships. o Guarantees from State Guarantee Board may be provided for acquisition of ships less than 10 yrs. old built at home or abroad. Specific guarantee amounts vary with shipowners. $417 million max.

*Does not include Japan's credit guarantee program to shipowners for ship scrapping.

TABLE 3A
CONSTRUCTION SUBSIDY GRANTS TO YARDS IN THE TOP SHIP-PRODUCING NATIONS

Country	Description of Subsidy*
S. KOREA (#2)	Specific subsidy amounts not reported. However, in 1976 the Korean govt. proclaimed that, where possible, all new ships for the Korean merchant fleet would be built in Korean yards with govt. subsidization of shipowners and shipyards.
W. GERMANY (#3)	o 1988-1991 direct aid subsidy fund is DM 700 million (about $372 million). o Subsidy max: 20% of contract price, 2/3 from federal govt. and 1/3 from state in which yard is located. (However, Germany will grant subsidies up to the European Community's Sixth Directive** ceiling of 28% if needed to win a contract.) o Subsidies to developing countries not subject to above ceiling. Recently, Israel and Singapore were classified as developing countries, and on this basis, the German government granted 25% subsidies to two German shipyards.
BRAZIL (#4)	Revenues from the Freight Additional for Renewal of the Merchant Marine (AFRMM) fund are earmarked for purchase, construction, and modernization of ships. This fund comes from a tax levied on shipping companies. [That portion of the revenues allotted to the Merchant Marine Fund (FMM) can provide 25% subsidies to Brazilian shipping companies for the purchase of Brazilian vessels.]
SPAIN (#5)	Subsidy maximums: o 28% for ships over 14 million European Currency Units (ECUs), o 19% for value under 6 million ECUs, and o 20% for refits.

* Does not include reorganization/modernization/conversion subsidies for shipyards, scrap or scrap and build subsidies, or tax incentives.

** Subsidy guidelines as set forth by the European Community Commission in the Sixth Directive set a top limit of 28% of the contract price for a ship valued at over $6 million and a 20% ceiling for a ship valued at under $6 million. The subsidy policy is effective until 1991 and is subject to annual revisions. There are no subsidy ceilings for aid provided to a developing country by an EC member.

TABLE 3A (Cont'd.)
CONSTRUCTION SUBSIDY GRANTS TO YARDS IN THE TOP SHIP-PRODUCING NATIONS

Country	Description of Subsidy
NETHERLANDS*** (#7)	1980 through 1986: Program of gradually decreasing subsidies. Total funding, approx. $464 million. Because of EC subsidy guidelines, a new aid program created for 1987 through 1989.
ITALY (#8)	1984-86 program: 11%, 15%, and 25% subsidies, depending on shipyard size. New program will be within EC guidelines. Funding: approx. $500 million.
TAIWAN (#10)	Unspecified amount of construction subsidies granted for ships ordered from Taiwan and registered in Taiwan.

*** Does not include the fleet modernization program of the Dutch government, which granted a premium of 5 x 2.1% of the contract price to Dutch shipowners ordering new sea-going merchant vessels. Premiums granted by Dutch government under new fleet modernization program as of 1987.

TABLE 4A
AID FOR SHIPYARD REORGANIZATION & SHIP SCRAPPING PROGRAMS
AMONG THE TOP SHIPBUILDING NATIONS

Country	Description of Aid
JAPAN (#1)	a. 5-yr. shipyard rationalization aid (4/87 law) o Govt. guarantees for payment of debts related to scrapping/reorganizing redundant docks/facilities at shipyards with 5,000 or more grt capacity. FY 1987 funding: $370,370 mil. (@135 yen=$1). o Govt. purchases of part of redundant facilities and lands at shipyards with 5,000 grt capacity. FY 1987 funding: $222,222 mil. (@135 yen=$1). o Tax exemption of 10% of capital investment to convert to different industry and other tax benefits. b. Ship scrapping aid o 12/78-10/85: Govt. assistance to shipbuilders to scrap mainly uneconomic oceangoing vessels (2,500 grt or over) started at approx. $9-11 per grt, raised to approx. $16-18 per grt in 1983. (3 million grt scrapped under this program. Cost: approx. $40.5 million.) New funding in 1986. Also a govt. guarantee program until 8/91. o Owners may scrap uneconomic coastal vessels and build new ones for joint ownership with govt.-owned Maritime Credit Corporation, which pays 70-80% of construction cost. Private shipowner pays fee to use vessel during joint ownership period of 7-15 yrs.
W.GERMANY (#3)	a. Shipyard reorganization Some federal aid provided in past yrs., e.g., $9.5 million in 1983 and 4.5 million in 1985. As of 2/87, coastal states providing aid for rationalization, modernization, conversion, diversification of shipyards within their respective boundaries.
SPAIN (#5)	a. Ship scrapping Govt. scheme as of 5/30/86 provided low rate of compensation ($9.50 per dwt for non-bulk vessels); therefore, not taken advantage of.
ITALY (#8)	a. Shipyard reorganization 1984-86 restructuring plan carried out through reorganization of 90% of shipyards into publicly-owned FINCANTIERI holding company. Funding: approx. $36 mil. Current funding equal to 20-30% of investment required for shipyard reorganization or conversion. b. Ship scrapping Govt. assistance of between 50,000-100,000 lire ($36-72) per ton provided for ships above 150 tons that are demolished (Law 848, 10/84).

TABLE 5A
RESEARCH & DEVELOPMENT FUNDING PROGRAMS OF TOP SHIPBUILDING NATIONS

Country	R&D Funding Program
JAPAN (#1)	o Ship Research Institute, attached to the Ministry of Transport, has annual research funding. FY 1986 budget: approx. $4.7 million. o 1987 and 1988 budgets not known. However, one known 1988-89 project is the development of a 7 billion yen (approx. $44 million) prototype of a high-speed cargo ship.
W.GERMANY (#3)	The federal govt. contributes funds to research projects related to shipbuilding and offshore. Contributions in 1985 were approx. $13.2 million and in 1986, $16.2 million.
DENMARK (#6)	Financial support to institutions engaged in shipbuilding research amounts to about $.5 million a year.
NETHERLANDS (#7)	Research activities are financed on a 50:50 basis by the Dutch government and the maritime industry.
ITALY (#8)	The Italian government contributes to research activities related to shipbuilding and ship propulsion, including prototype R&D. 1986 contribution: approx. $25.6 million.

(Prepared by the Military Sealift Command, December 2, 1988)

COMPARISON OF THE COMMERCIAL MERCHANT FLEETS OF NATO COUNTRIES TO WARSAW PACT COUNTRIES

Country	Number of ships	Deadweight Tonnage
NATO		
Belgium	70	3,128,203
Canada	85	930,879
Denmark	208	5,845,119
France	188	6,852,677
Greece	1,032	38,577,972
Iceland	22	85,918
Italy	552	10,677,611
Netherlands	349	3,726,627
Norway	361	16,512,464
Portugal	51	1,493,896
Spain	374	6,779,952
Turkey	344	5,126,968
United Kingdom	311	8,608,966
United States	451	21,895,764
West Germany	416	4,215,682
Grand Total	4,814	134,458,698
Minus Tankers	-1,419	-78,793,321
Minus Bulk Cargo	-837	-31,961,840
Amended Total	2,558	23,703,537
WARSAW PACT		
Bulgaria	106	1,864,973
Czechoslovakia	18	223,532
East Germany	144	1,735,848
Hungary	14	100,354
Poland	240	4,215,238
Romania	281	5,129,463
Soviet Union	1,670	22,027,005
Grand Total	2,473	35,296,413
Minus Tankers	-337	-9,641,566
Minus Bulk Cargo	-402	-11,509,484
Amended Total	1,734	14,145,363

Notes.

1. Ship data is for vessels 1,000 gross tonnage and over, as of July 1, 1988.
2. Fleet comparison is based on ship types: dry cargo, refrigerated cargo, container, ro/ro, barge carrier, tanker, heavy-lift load carrier, passenger, and bulk cargo.
3. Soviet fleet does not include Caspian Sea fleet.
4. U.S. fleet does not include Great Lakes, NDRF or USNS fleets.
5. The amended figures more realistically show a fleet capability in time of crisis. While some tankers are considered useful, most are large crude carriers or types not suitable for logistic support.

COMPARISON OF THE COMMERCIAL MERCHANT FLEETS OF NATO COUNTRIES TO WARSAW PACT COUNTRIES (continued)

The following chart compares the number of ships in the Naval fleets of the NATO allies with those of the Warsaw Pact countries as of June 1987.

NATO		WARSAW PACT	
Country	Number of Ships	Country	Number of Ships
Belgium	47	Bulgaria	117
Canada	91	Czechoslovakia	20
Denmark	140	East Germany	227
France	**384**	**Hungary**	**45**
Greece	207	Poland	176
Iceland	4	Romania	211
Italy	**234**	**Soviet Union**	**2,485**
Netherlands	109		
Norway	125		
Portugal	**51**		
Turkey	401		
United Kingdom	434		
United States	**738**		
West Germany	306		
Total	3,271	Total	3,281

Notes:
1. Czechoslovakia maintains a River Patrol Force, rather than an established naval force.
2. Hungary's Navy was dissolved in 1968, however, its Army maintains a maritime wing that is responsible for operating the ships.
3. Iceland does not maintain a Navy. The ships listed are Coast Guard Patrol vessels.